
Office of Inspector General

Audit Report

Department of Transportation
FY 1996 Consolidated Financial
Statement

Report Number: AD-OT-7-004
Date Issued: April 10, 1997





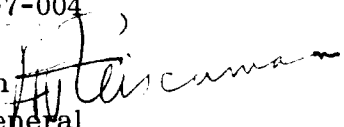
Memorandum

**U. S. Department of
Transportation**

Office of the Secretary
of Transportation
Office of Inspector General

Subject: **INFORMATION:** Report on the Department
of Transportation Fiscal Year 1996
Consolidated Financial Statement
Report No. AD-OT-7-004

Date: April 10, 1997

From: Joyce N. Fleischman 
Acting Inspector General

Reply To:
Attn Of: Stefani: x60500

To: The Secretary
Thru: The Deputy Secretary

As required by the Chief Financial Officers Act of 1990, I respectfully submit the Office of Inspector General's (OIG) report on our audit of the Department of Transportation (DOT) Fiscal Year (FY) 1996 Consolidated Financial Statement as of September 30, 1996. The DOT FY 1996 Consolidated Financial Statement and related notes, Management Overview, and Supplemental Information accompany the report. The DOT Consolidated Financial Statement presents financial information on the Office of the Secretary (OST), United States Coast Guard, Federal Aviation Administration, Federal Highway Administration, Federal Railroad Administration, National Highway Traffic Safety Administration, Federal Transit Administration, Maritime Administration, Research and Special Programs Administration, Bureau of Transportation Statistics, Surface Transportation Board, Saint Lawrence Seaway Development Corporation, and the OIG.

The audit report on the DOT Consolidated Financial Statement is the responsibility of the OIG. All other information, such as the Management Overview, Consolidated Financial Statement and related notes, and Supplemental Information are the responsibility of OST. Our audit, however, was limited to the DOT Consolidated Statement of Financial Position as of September 30, 1996.

If I can answer any questions or be of any further assistance, please call me on x61959 or Alexis M. Stefani on x60500.

Attachment



U.S. Department of
Transportation

Office of Inspector General

Department of Transportation Fiscal Year 1996 Consolidated Financial Statement

Report No.: AD-OT-7-004

April 10, 1997

Objectives

The objectives for our audit of the Department of Transportation (DOT) Fiscal Year (FY) 1996 Consolidated Financial Statement were to determine whether (1) the Consolidated Statement of Financial Position presented fairly, in all material respects, the financial position of DOT programs and activities in accordance with the Office of Management and Budget (OMB) Bulletin No. 94-01; (2) DOT had in place an adequate internal accounting and administrative control structure that provided reasonable assurance of achieving established internal control objectives; (3) DOT had complied with laws and regulations which (a) could have a direct and material effect on the financial statement or (b) have been specified by OMB and/or Office of the Secretary; (4) the information in, and manner of presentation of, the Management Overview and Supplemental Information sections of DOT financial statement package were materially consistent with information in the Consolidated Statement of Financial Position; and (5) DOT had adequate policies and procedures in place to provide reasonable assurance of achieving its internal accounting and administrative control objectives regarding the existence and completeness assertions for performance measures.

Conclusions

We were unable to express an opinion on the Consolidated Statement of Financial Position as of September 30, 1996. We identified 11 material internal control weaknesses, 13 reportable conditions, and 2 instances of noncompliance with applicable laws and regulations associated with the DOT FY 1996 Consolidated Financial Statement. We were unable to validate Property and Equipment and Operating Materials and Supplies reported on the Consolidated Statement of Financial Position valued at \$25.8 billion (representing 38 percent of the Department's total assets) due to inadequacies in supporting documentation and unreconciled discrepancies between general ledger balances maintained in the Departmental Accounting and Financial Information System (DAFIS) and subsidiary accounting records. In addition, equipment purchase transactions were

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inappropriately expensed and should have been capitalized, causing assets to be understated and the invested Capital in the net position section to be materially misstated. As a result of these reconciliation, documentation, and capitalization problems, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Consolidated Statement of Financial Position as of September 30, 1996.

Furthermore, DOT did not have adequate controls in place to (a) ensure consistency between financial statements and budgetary reports in reporting budget execution results, (b) prevent recording of invalid liabilities, and (c) accrue liabilities for goods and services received at yearend. In addition, we identified problems in recording liabilities not covered by budgetary resources, estimating liabilities for military retired pay and health care costs, calculating intradepartmental elimination entries, and processing DAFIS system change requests.

We identified two instances of noncompliance with laws and regulations directly affecting the Consolidated Statement of Financial Position. They were related to processing of general ledger adjustments and reporting of performance measures. Since we disclaimed an opinion on the Consolidated Statement of Financial Position, we were unable to accomplish our fourth objective of determining the consistency of information in the Management Overview and Supplemental Financial sections with the financial statement.

Monetary Impact

Specific monetary savings were not identified for the material weaknesses and reportable conditions. However, correcting the internal control weaknesses will help ensure accuracy, timeliness, and reliability of the Department's financial statement.

Recommendations

We made 72 recommendations to strengthen internal controls and improve the accuracy of the Department's financial statement.

Management Position

Management officials indicated general concurrence with the recommendations. We have requested a formal response to this report from the Departmental Chief Financial Officer.



U.S. Department of
Transportation

Office of Inspector General

Office of Inspector General Comments

We are awaiting management's written comments on the findings and recommendations presented in this report.

SYNOPSIS

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INSPECTOR GENERAL'S REPORT ON THE
DEPARTMENT OF TRANSPORTATION
FISCAL YEAR 1996 CONSOLIDATED FINANCIAL STATEMENT
AS OF SEPTEMBER 30, 1996

To the Secretary:

The Department of Transportation (DOT) Office of Inspector General (OIG) conducted an audit of the DOT Fiscal Year (FY) 1996 Consolidated Financial Statement as of September 30, 1996. The DOT Consolidated Financial Statement is the responsibility of the Office of the Secretary (OST).

The DOT FY 1996 Consolidated Financial Statement presents financial information of OST, United States Coast Guard (USCG), Federal Aviation Administration (FAA), Federal Highway Administration (FHWA), Federal Railroad Administration (FRA), National Highway Traffic Safety Administration (NHTSA), Federal Transit Administration (FTA), Maritime Administration (MARAD), Research and Special Programs Administration (RSPA) including John A. Volpe National Transportation Systems Center (VNTSC), Bureau of Transportation Statistics (BTS), Surface Transportation Board (STB), Saint Lawrence Seaway Development Corporation, and the OIG. The audit was performed in accordance with Government Auditing Standards, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin Number 93-06, "Audit Requirements for Federal Financial Statements."

The audit objectives were to determine whether (1) the Consolidated Statement of Financial Position presented fairly, in all material respects, the financial position of DOT's programs and activities in accordance with OMB Bulletin Number 94-01, "Form and Content of Agency Financial Statements;" (2) DOT had in place an adequate internal accounting and administrative control structure that provided reasonable assurance of achieving established internal control objectives; (3) DOT had complied with laws and regulations which (a) could have a direct and material effect on the financial statement or (b) have been specified by OMB and/or OST; (4) the information in, and manner of presentation of, the Management Overview and Supplemental Information sections of DOT financial statement package were materially consistent with information in the Consolidated Statement of Financial Position; and (5) DOT had adequate policies and procedures in place to provide reasonable assurance of achieving its internal accounting and administrative control objectives regarding the existence and completeness assertions for performance measures.

OST prepared the Consolidated Statements of Financial Position and Operations for all DOT programs and activities. In March 1996, DOT requested a waiver from requirements of OMB Bulletin Number 94-01 regarding preparation of the Statement of Cash Flows and the Statement of Budgetary Resources and Actual Expenses. OMB approved the waiver and OST did not prepare these two statements.

The financial statement audit process is intended to foster a collegial and cooperative working relationship between auditors and accounting personnel, and this was accomplished during the audit. Using the results of the audit fieldwork, departmental accounting personnel significantly enhanced the precision and comprehensiveness of the information reported in the FY 1996 Consolidated Financial Statement and accompanying notes. The resulting modifications incorporated into the final version of the DOT FY 1996 Consolidated Financial Statement include \$24 billion in line items adjustments and \$8 billion in line items reclassifications. We calculated the amounts for the line items adjustments and reclassifications using the value of only one side of each accounting adjustment, i.e., either the debit or credit.

This report presents our disclaimer of opinion on the DOT FY 1996 Consolidated Statement of Financial Position along with our reports on the systems of internal controls and compliance with laws and regulations.

OPINION ON FINANCIAL STATEMENT

In accordance with the Chief Financial Officers (CFO) Act of 1990, the OIG audited the DOT Consolidated Statement of Financial Position as of September 30, 1996. The Consolidated Statement of Financial Position is the responsibility of OST. The OIG's responsibility is to express an opinion on this statement based on the audit.

The auditing standards under which we conducted our work require us to plan and perform the audit to obtain reasonable assurance whether the Consolidated Statement of Financial Position is free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our audit work was limited to the Consolidated Statement of Financial Position because this was the first year that OST prepared a consolidated financial statement covering all programs and activities and we could not validate the beginning balances for assets, liabilities, and net position. We did limited testing of the "Total Expenses" on the Statement of Operations to ensure that assets were not being improperly expensed.

As required by OMB Bulletin Number 94-01, Note 1 to the DOT FY 1996 Consolidated Financial Statement describes the accounting policies used by the Department to prepare the financial statement. Those policies represent a comprehensive basis of accounting other than Generally Accepted Accounting Principles.

Several Operating Administrations (OA) had not reconciled all general ledger balances for material accounts to subsidiary records as of September 30, 1996, and detail records supporting these balances were generally not available to substantiate corresponding amounts reported on the Consolidated Statement of Financial Position. These accounts included Property and Equipment and Operating Materials and Supplies. The lack of records prevented us from applying other auditing procedures to determine whether the balances reported for the corresponding material line items were fairly presented. In addition, our limited testing of expenses found OAs were expensing amounts that should have been capitalized resulting in a material understatement of assets on the Consolidated Statement of Financial Position. As a result of the reconciliation, documentation, and capitalization problems noted above, the scope of our audit work was not sufficient to enable us to express, and we do not express, an opinion on the Consolidated Statement of Financial Position as of September 30, 1996.

CONSISTENCY OF OTHER INFORMATION

Our disclaimer of opinion on the Statement of Financial Position as of September 30, 1996, prevented us from accomplishing our fourth audit objective. We were unable to assess whether the information in the Overview and Supplemental Financial and Management Information sections of the financial statement package was materially consistent with the Statement of Financial Position.

REPORT ON INTERNAL CONTROL STRUCTURE

OMB guidance for implementing the audit provisions of the CFO Act requires the auditors to assess the reporting entity's internal control structure. DOT management personnel are responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control mechanisms, policies, and procedures. The objectives of an internal control structure are to (1) provide management with reasonable, but not absolute, assurance that transactions are properly recorded; (2) permit the preparation of reliable financial reports in accordance with applicable accounting policies; (3) maintain accountability over assets, funds, property, and ensure assets are safeguarded against unauthorized use, loss or disposition; (4) ensure transactions are executed in compliance with laws and regulations; and (5) ensure data supporting reported performance measures are properly recorded.

In planning our audit of the DOT FY 1996 Consolidated Financial Statement, we considered the internal control structure within DOT in order to identify appropriate auditing procedures for the purposes of expressing an opinion on the Consolidated Statement of Financial Position and to determine whether the internal control structure meet DOT internal control objectives. However, the intent of our internal control review was not to provide an opinion on the Department's overall systems of internal controls.

The work we performed included obtaining an understanding of the significant internal control policies and procedures and assessing the level of control risk relevant to all significant activity cycles, classes of transactions, and/or account balances. For those significant internal control policies and procedures found to be properly designed and placed in operation, we performed sufficient tests to assess more fully whether the controls were effective and working as designed.

Some of the Department's internal controls are dependent on automated information systems processing. An independent contractor evaluated the effectiveness of the general controls of the financial systems at the Transportation Administrative Service Center Computer Center in Washington, D.C.; Electronic Data Systems Corporation's computer facility located in Plano, Texas; and USCG's Finance Center in Chesapeake, Virginia. The contractor's evaluation included (a) environmental security software controls, (b) operating system integrity controls, (c) physical security controls, (d) operating system change controls and maintenance, (e) reliability-availability-stability controls, and (f) enterprise-wide security. In addition, another independent contractor conducted a penetration evaluation of the

effectiveness of network security controls over access to financial systems within the Integrated Telecommunications Network Environment in DOT. The tests objectives were to determine the level of exposure to financial risk, such as theft of information, embezzlement, availability and/or destruction of data. DOT's Report to the President and Congress for FY 1996 under the Federal Managers' Financial Integrity Act (FMFIA) reported a new material weakness relating to the lack of security controls over access to DOT's Intermodal Data Network.

In addition, we reviewed application controls in the Departmental Accounting and Financial Information System (DAFIS) and selected feeder systems. The evaluation included obtaining an understanding of the significant internal control policies and procedures, and assessing the adequacy of the preventive, detective, and corrective controls over the input, processing, and output of authorized financial data reported to, and processed by, DAFIS and selected feeder systems. The feeder systems were FHWA's Fiscal Management Information System (FMIS), Federal-Aid Payment (PR-20) System, and Federal On-line Xchange (FOX) System (a MARAD-managed system used by FHWA for payment disbursements). Also, we evaluated FTA's Electronic Clearing House Operation (ECHO) System, DAFIS On-line Transaction System (DOTS), and FTA's Grants Management Information System (GMIS).

Our evaluation of the controls for reported performance measures was intended to be limited to controls to ensure the existence and completeness of the information directly relating to DOT. However, OST did not include departmental performance measures as part of the DOT's FY 1996 Consolidated Financial Statement as required by the CFO Act and OMB Bulletin Number 94-01.

Our internal control testing identified 11 deficiencies which we concluded should be considered "material weaknesses" and an additional 13 "reportable conditions" under standards established by the General Accounting Office (GAO), the American Institute of Certified Public Accountants, and OMB Bulletin Number 93-06. We also identified two instances of noncompliance with laws and regulations associated with the DOT FY 1996 Consolidated Financial Statement.

Reportable conditions are matters which have come to our attention involving significant deficiencies in the design or operation of the internal control structure which, in our judgment, could adversely affect the entity's ability to ensure the objectives of the internal control structure are being achieved. A material weakness is a reportable condition where the design or operation of one or more specific internal control mechanisms does not reduce to a relatively low level the risk of material errors or irregularities occurring and not being detected within a reasonable time by employees in the normal course of performing their

assigned functions. These deficiencies do not meet the DOT materiality criteria under the FMFIA for reporting to the President and Congress.

Our consideration of DOT's internal control structure would not necessarily identify all matters which should be considered reportable conditions. Accordingly, the 24 deficiencies described below do not necessarily constitute all reportable conditions, including material weaknesses, associated with the internal control structure established for the Department. The more significant problem areas meeting the definition of a material weakness are presented first followed by the reportable conditions.

MATERIAL WEAKNESSES

A. Property and Equipment (P&E)

OAs could not support the \$24.4 billion of P&E reported on DOT's draft FY 1996 Consolidated Statement of Financial Position. This occurred because OAs did not (1) maintain accurate subsidiary property records, (2) retain documentation to support the value of P&E, and (3) reconcile subsidiary property records with general ledger P&E asset accounts, and (4) post P&E transactions to the proper general ledger asset accounts. As a result, we were unable to validate the amount of P&E reported on the Consolidated Statement of Financial Position as of September 30, 1996. Unless corrected, this material weakness will have a significant impact on the OIG's ability to render an opinion on future financial statements.

Discussion

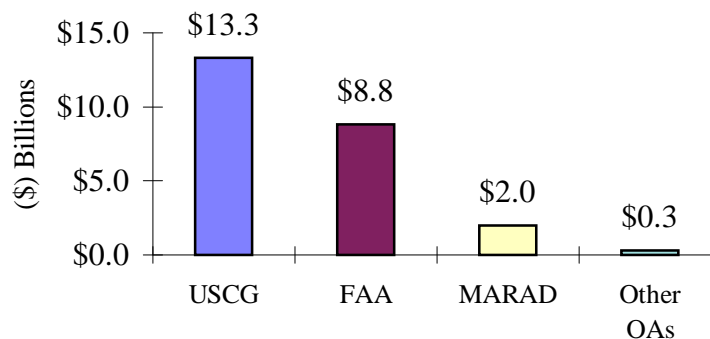
Title 31 United States Code 3512(5)(b) states "The head of each executive agency shall establish and maintain systems of accounting and internal controls that provide (1) complete disclosure of the financial results of the activities of the agency; (2) adequate financial information the agency needs for management purposes; and (3) effective control over, and accountability for, assets for which the agency is responsible."

Statement of Federal Financial Accounting Standards (SFFAS) Number 6, "Accounting for Property, Plant, and Equipment," requires that all property, plant, and equipment be recorded at cost. Cost is defined as all expenses associated with bringing property, plant and equipment to a form and location suitable for its intended use.

DOT Order 4410.4, "Equipment Management and Control," provides overall policy for equipment management. Mandatory procedures are contained in an accompanying handbook which requires equipment to be recorded on an individual basis to include (1) item nomenclature, model number, serial number and manufacturer, (2) acquisition cost, (3) date of acquisition, (4) purchase order or receiving document number, (5) location, and (6) quantity. The order permits records to be established for a group of items or as a system provided the identity of individual accountable components is not lost.

DOT Order 2700.12, "Financial Management Control of Property," prescribes DOT policies and guidelines to insure uniform and reliable accounting control and reporting of the Department's investment in property. The order states property shall be recorded in the appropriate general ledger P&E asset accounts at the time the OA accepts, acquires, completes construction, or otherwise takes custody. Documentation in support of property transactions shall be maintained so it can easily be associated with the respective transactions. Lastly, the order requires quarterly reconciliations of detailed subsidiary property records with general ledger P&E asset accounts.

DOT's draft FY 1996 Consolidated Statement of Financial Position, dated February 4, 1997, reported a total of \$24.4 billion for P&E, of which 99 percent was at three OAs.



To evaluate DOT's assertions related to the valuation, existence and ownership of P&E, we performed substantive testing at USCG, FAA and MARAD. At the remaining OAs, we limited our work to reviewing internal controls and performing analytical reviews of P&E. We were unable to fully evaluate DOT's assertions because (1) subsidiary property records did not contain accurate information on the historical costs of P&E, (2) documentation to support P&E transactions was not retained, (3) general ledger P&E asset accounts

were not reconciled with subsidiary property records, and (4) P&E transactions were not posted to the general ledger.

Subsidiary Records. OAs did not maintain accurate information in subsidiary property records. For example:

- At FAA, to determine the accuracy of the subsidiary records supporting real property general ledger account balances, we selected a statistical sample of 277 real property items recorded at \$599,878,117 to perform detailed tests. Based on the results of our statistical sample we were able to project, with 95 percent confidence, that the value of real property recorded in the subsidiary records is overstated by about \$198 million. Also, subsidiary property records for personal property did not contain the level of detail specified by DOT Order 4410.4. Of the \$2.87 billion reported in the subsidiary property records, \$2.32 billion involved “rolled-up facility equipment” and associated “installation charges.” Additional details are contained in our report on FAA’s FY 1996 financial statement.¹
- At USCG, we tested the accuracy of the subsidiary property records by reviewing 1,251 real property items and 464 personal property items. These items had a reported value of \$789.4 million and were located at 30 randomly selected USCG operating units. Based on the results of our review, we concluded the amount sampled was overstated \$58.5 million. Furthermore, we identified 81 P&E items, with an estimated value of \$8.9 million, that were not recorded in the subsidiary property records. In addition to our sample, we determined USCG incorrectly included \$106 million of electronics owned by the Navy in the subsidiary property records. Also, there were over 1,000 electronic transceivers and 150 artifacts, totaling approximately \$65 million which were incorrectly included in the subsidiary property records.

Subsidiary property records contained inaccurate information because OAs did not (1) use actual historical cost based upon an invoice or other appropriate documents and (2) update subsidiary records to reflect acquisitions and disposals. Most subsidiary property records at the OAs were developed primarily for property management and budget purposes. These subsidiary property records do not contain the information necessary to satisfy existing financial reporting requirements. To illustrate, USCG has more than 10 separate property systems which do not have the

¹Report on Federal Aviation Administration Fiscal Year 1996 Financial Statement, Report No. R3-FA-7-004, dated March 27, 1997.

information USCG needs to accurately report P&E. In an attempt to capture information necessary to satisfy financial reporting requirements, several OAs have obtained off-the-shelf property management systems.

Supporting Documentation. OAs did not have documentation to support the valuation, existence and ownership of P&E recorded in subsidiary records. For example:

- FAA did not have documentation to support either the \$3.16 billion of personal property or the \$3.3 billion of work-in-process reported on the FAA's draft FY 1996 Statement of Financial Position. A detailed discussion of these issues is contained in our report on FAA's FY 1996 financial statement.
- USCG did not have documentation to support the reported value of \$8.3 billion for buildings and structures. In addition, DAFIS general ledger accounts only reflected a balance of \$968 million or about \$7.3 billion less than reported. This large difference occurred because subsidiary property records contained estimated replacement amounts rather than historic costs as required. USCG officials planned to deflate the values to estimate historic costs, however, approximately \$1.7 billion of the buildings and structures did not have either the construction or acquisition date necessary to perform the calculation. Also, USCG did not have subsidiary records for the \$86 million reported for land on the Consolidated Statement of Financial Position.
- MARAD did not have supporting documentation for P&E reported at \$2.0 billion. We reviewed documentation for 25 vessels, with a reported value of \$1.07 billion (acquisition costs of \$732.3 million and upgrade costs of \$336.8 million). MARAD officials did not have any documentation to support the \$336.8 million of upgrade costs nor the acquisition cost of \$176.5 million for nine vessels. We also reviewed real property items with a value of \$4.5 million. MARAD officials could only provide documentation to support \$7,814 of real property items reviewed.

We could not substantiate information contained in subsidiary property records because OAs did not retain documentation in accordance with DOT Order 2700.12.

Reconciliations with General Ledger P&E Asset Accounts. Except for OST, OAs were not reconciling subsidiary property records with the associated general ledger P&E asset accounts as required by DOT Order 4410.4. Reconciliations are an important tool to ensure P&E

transactions are properly and accurately posted to both subsidiary property records and general ledger P&E asset accounts. This is especially critical since subsidiary property records are stand-alone systems and do not interface with DAFIS. Had quarterly reconciliations been performed, some errors we discovered would have been identified. For example, USCG P&E was overstated by \$195 million because some items were recorded both as systems and as system components in the subsidiary property records. In another example, at MARAD, the general ledger account balance for real property totaled \$53.7 million, but the subsidiary real property records totaled only \$43.3 million. MARAD officials were unable to explain the difference.

Posting P&E Transactions. MARAD did not post any transactions to DAFIS general ledger P&E asset accounts. The FY 1996 ending balance in DAFIS general ledger P&E asset accounts totaled \$1.4 billion, however, the DOT draft Consolidated Statement of Financial Position reflected \$2.0 billion or an increase of about \$600 million. MARAD accounting officials relied on property managers to provide information from subsidiary property records.

We also determined that FAA improperly expensed at least \$325 million of P&E and USCG incorrectly posted \$182 million of P&E acquisitions to general ledger operating expense accounts. Details are discussed in Finding C with recommendations for improving posting of P&E transactions. MARAD officials did not determine the value of P&E improperly expensed during FY 1996.

Recommendations

We recommend the Departmental CFO:

1. Require OAs to develop and implement a plan with target dates for reconciling general ledger P&E accounts and subsidiary property records for prior years and making appropriate corrections.
2. Explore alternatives, such as acquiring off-the-shelf property management systems, if existing subsidiary property records cannot satisfy financial reporting requirements.
3. Develop procedures for the proper valuation of existing property and equipment when documentation is not available and emphasize to OAs the need to retain documentation, in accordance with DOT Order 2700.12, to support P&E transactions.

4. Require OAs to perform quarterly reconciliations between subsidiary property records and DAFIS general ledger P&E asset accounts.

Management Position

Officials from the CFO's Office of Financial Management (OFM) verbally concurred with our recommendations and stated a need existed for an integrated, systematic process for processing P&E transactions. They agreed to develop a plan, with specific target dates, for reconciling P&E general ledger accounts with respective subsidiary property records, and perform quarterly reconciliations. In addition, DOT's Intermodal Property and Accounting Task Force will continue ongoing work associated with improving management of P&E to include examining the feasibility of acquiring commercial off-the-shelf property systems to satisfy financial reporting requirements. We are awaiting the CFO's response to the final report.

B. Operating Materials and Supplies

Operating materials and supplies reported at \$1.4 billion were not adequately supported and could not be substantiated through audit testing. This occurred because physical inventories were not performed, subsidiary records were not adequate to meet accounting and financial reporting needs, and unit prices were unsupported. As a result, we were unable to validate the amount of operating materials and supplies on hand as of September 30, 1996. Unless corrected, this material weakness will have a significant impact on the OIG's ability to render an opinion on future financial statements.

Discussion

SFFAS Number 3, "Accounting for Inventory and Related Property," defines operating materials and supplies as ". . . tangible personal property to be consumed in normal operations. . . ." The standard requires operating materials and supplies be valued on the basis of historical costs. SFFAS Number 3 further requires excess, obsolete and unserviceable operating materials and supplies to be disclosed either as part of the operating materials and supplies line item on the face of the financial statements with separate disclosure in footnotes or shown as a separate line item on the face of the financial statement. It also requires the devaluing of items "held for repair" since these items should not be valued at 100 percent of historical cost.

On December 2, 1996 the Department's CFO issued a policy statement on "Inventory and Related Property," which stated:

The cutoff date for all unsupported inventory and related property is . . . October 1994. Periodic physical counts of inventory and related materials should be performed on a cyclical basis, assuring that all items are reviewed at least every three years. OAs should develop reasonable estimates to reflect excess, obsolete, and unserviceable inventory for financial statements. Items in nonserviceable condition should be valued at less than 100 percent based on OA-specific criteria and circumstances.

Three OAs reported operating materials and supplies totaling \$1.4 billion as of September 30, 1996. The three OAs and the value of operating materials and supplies are: USCG (\$875 million), FAA (\$432 million), and MARAD (\$59 million).

These assets are located at supply control points and field facilities. The supply control points in the USCG include: the Aircraft Repair and Supply Center, Elizabeth City, North Carolina; Engineering Logistics Center formerly Supply Center Baltimore, Baltimore, Maryland; and Supply Center Curtis Bay, Curtis Bay, Maryland. In FAA, the supply control points include the Logistics Center at Mike Monroney Aeronautical Center, Oklahoma City, Oklahoma, and the William J. Hughes Technical Center, Atlantic City, New Jersey. Supply control points in MARAD are located in Chesapeake, Virginia; New Orleans, Louisiana; Nederland, Texas; and Hunters Point, California. Other assets (field spares) are located at facilities unique to each of these OAs including shore facilities and vessels in the USCG, air route traffic control centers in FAA, and vessels in MARAD's Ready Reserve Fleet. On the consolidated statement only USCG reported an amount for field spares.

Physical Inventories. OAs did not conduct sufficient physical inventories of operating materials and supplies at supply control points and field facilities to provide reasonable assurance the quantities recorded in inventory management systems were accurate. For example, FAA had not met the cyclic inventory requirements for the Logistics Center since at least 1990. We were also unable to rely on quantities recorded for field spares by any OA. For example, according to FAA information only 26 percent of the field spares were inventoried nationwide during FY 1996. We performed a physical inventory of operating materials and supplies at the Logistics Center using statistical sampling techniques. The results of the statistical sample showed, at a 95 percent confidence

level, that 20.2 percent of the line items in the inventory system have incorrect on-hand balances. In our opinion, this error rate exceeds the level needed to provide reasonable assurance of the accuracy of the quantities recorded. We found similar error rates between subsidiary records and actual on hand quantities at USCG supply control points. For example, 21.6 percent of high dollar value line items tested at Supply Center Curtis Bay had incorrect on hand balances. The error rate for high dollar value items at Supply Center Baltimore was 26 percent.

Subsidiary Records. Subsidiary records maintained by the OAs for operating materials and supplies are not adequate to meet accounting and financial reporting requirements. Systems in use by the OAs are primarily designed and used for inventory management and budget control and provide limited interface to DAFIS. Unit prices were not recorded at historical cost. In addition, the OAs were unable to reconcile the DAFIS general ledger to the subsidiary records. For example, USCG used inventory management systems unique to each of their supply control points. For the USCG supply control points, the detailed listing of on-hand items totaled \$13.4 million less than the amount reported on the Consolidated Statement of Financial Position.

We were unable to validate the amount USCG reported for field spares of \$158.9 million because (a) the method used to price the reported field spare was based on current price instead of historical cost, (b) part of the reported value was based on estimates, and (c) over 87,000 records with on-hand quantities did not have a unit price. FAA did not provide an amount for field spares because of inadequacies in their system used to account for field spares and insufficient physical inventories. MARAD could not provide an amount for field spares aboard their fleet of vessels because they had not established a system to capture the cost of field spares.

Unsupported Unit Prices. OAs could not substantiate through invoices or contracts, unit prices of operating materials and supplies where we performed substantive testing. For example, we performed a statistical sample of operating materials and supplies held at the FAA Logistics Center and found 48.4 percent of the depot line items sampled did not have documentation to support the unit prices. Using prices recorded in the FAA's subsidiary record we projected, at a 95 percent confidence level, that \$286.3 million of the \$591.6 million recorded in the subsidiary was unsupported. USCG could not support unit prices for 566 out of 686 high dollar value line items we tested. MARAD could not provide adequate support for 83 of the 106 items we tested at the Chesapeake warehouse.

We found many of the items tested were purchased before October 1994, the date the Department established for OAs being accountable for retaining documentation to support unit prices. In FAA, our analysis of the 181 unsupported sample line items showed the last receipt date recorded in the subsidiary records for 158 line items (87 percent) was October 1988. At the USCG's Aircraft Repair and Supply Center, 191 of 200 items we tested had no purchases after October 1, 1994. MARAD could not determine the date of acquisition for most spare parts.

The deficiencies of insufficient physical inventories, inadequate subsidiary records to meet accounting and financial reporting requirements, and absence of documentation to support unit prices constitute a material internal control weakness. Also, we are not confident the OAs have identified all excess and obsolete items. This is based on the age of the items tested, the absence of current demands for some of the items, and systems/property being decommissioned. For example, in FAA we identified an exchange and repair item with a unit price of \$33,705, which according to the item manager, is part of a system being decommissioned. The item manager further explained that only two of the systems remain active. However, the Logistics Center had an on-hand quantity of 106 of the exchange and repair items totaling \$3.6 million as of September 30, 1996. In our opinion, some of the 106 items have the potential to be excess to FAA needs and should be devalued and placed in the disposal process. Although the USCG reduced the value reported for items in need of repair to 75 percent and FAA reduced the value reported for these items to 35 percent, we were unable to verify the validity of the percentages because repair cost data for reparable items were not provided for review. Therefore, we were unable to validate the balances for Operating Material and Supplies in the Consolidated Statement of Financial Position at September 30, 1996.

Recommendations

We recommend the Departmental CFO:

1. Require OAs to develop and implement a plan, with target dates, to correct the operating materials and supplies deficiencies identified by the OIG to include:
 - (a) Complying with the Department's December 2, 1996, policy guidance on Inventory and Related Property for conducting physical inventories.

- (b) Establishing and maintaining adequate subsidiary records for operating materials and supplies (including field spares).
 - (c) Analyzing repair histories for reparable items, pricing items in need of repair accordingly, and maintaining documentation.
- 2. Direct OAs to reconcile DAFIS general ledger accounts for operating materials and supplies with subsidiary ledgers prior to preparing the FY 1997 financial statements.
- 3. Direct OAs to report operating materials and supplies at historical cost and maintain documentation supporting unit prices.
- 4. Establish a working group with the OAs and OIG to determine the most viable cost effective method to arrive at a dollar amount that would represent the cost of operating materials and supplies on hand that were acquired before October 1, 1994.

Management Position

Officials in the CFO's Office of Financial Management verbally concurred with our recommendations. They recognized the need for an integrated system to properly record operating materials and supplies and conduct valid inventories. OFM will require plans with specific target dates to analyze repair histories, conduct physical inventories, and correct the general ledger and subsidiary ledgers as necessary. OFM will reemphasize the need to retain historical records after October 1, 1994. OFM will explore, with the OAs, viable cost effective methods to estimate the value of operating materials and supplies when historical records were not available. One possibility is to expand the charter of DOT's Intermodal Property and Accounting Task Force which is working on a similar problem for P&E. We are awaiting the CFO's response to the final report.

C. Capitalization of Property and Equipment

At least \$507 million in property and equipment purchase costs were expensed which should have been capitalized. This occurred because OA procedures did not ensure all costs associated with property and equipment purchases were correctly classified and accounted for as capital costs. However, when OAs attempted to classify property and equipment as capital costs, because of weaknesses in DAFIS, these costs were sometimes expensed. The total amount of the property and equipment capital costs incorrectly expensed is not known. Unless corrected, this material weakness will have an impact on the OIG's ability to render an opinion on future financial statements.

Discussion

SFFAS Number 6 requires all costs incurred to bring property, plant and equipment to a form and location suitable for its intended use to be capitalized. Property and equipment acquisition costs not meeting this criteria should be expensed. Under DOT Order 2700.8A, "Accounting Principles and Standards," the basic cost of property acquired is the cost of the property, transportation, installation, and related costs of obtaining the property in the form and place to be used or managed.

FAA property and equipment is purchased primarily with Facilities and Equipment (F&E) funding, while USCG property and equipment is purchased primarily with Acquisition, Construction, and Improvement (AC&I) funding. During FY 1996, FAA charged

\$2.6 billion of F&E transactions to operating expenses and USCG charged \$314 million of AC&I transactions to operating expenses.

We reviewed FAA's and USCG's capitalization processes and tested 290 F&E and AC&I transactions expensed during FY 1996. We found FAA expensed at least \$325 million and USCG expensed at least \$182 million in property and equipment costs which should have been capitalized. We concluded FAA and USCG incorrectly expensed property and equipment acquisition costs because procedures did not distinguish which costs should be capitalized and which should be expensed.

During the audit, USCG decreased operating expenses by \$164 million. FAA made no adjustments for the incorrectly expensed capital costs because the total amount which should have been capitalized during FY 1996 had not been determined.

FAA hired a contractor to study its policies and procedures on capitalizing and expensing equipment acquisition costs. We recommended in our report on the FAA FY 1996 financial statement that the procedures developed by the contractor to correct capitalization problems be implemented. USCG procedures do not require all costs (i.e., installation, project management, transportation) incurred to bring property and equipment to a form and location suitable for its intended use to be capitalized.

In addition, we found that when FAA and USCG correctly classified and accounted for property and equipment acquisition costs as capital costs, these costs were also expensed due to problems associated with DAFIS processing. Accounting personnel did not know about the need to use material asset codes. DAFIS allows users to enter P&E transactions without material asset codes. However, the material asset code determines which general ledger account should be posted. When the material asset code is omitted by the user, DAFIS posts the transaction by default to an expense account.

In December 1996, USCG requested that OFM change DAFIS to ensure property and equipment acquisition costs are correctly classified, accounted for, and charged to the appropriate general ledger accounts. For these transactions, USCG proposed that DAFIS assign a material asset code based on the object class code.

Recommendations

We recommend the Departmental CFO:

1. Require OAs to implement the property and equipment capitalization policy provided in SFFAS Number 6 and DOT Order 2700.8A.
2. Strengthen internal controls associated with the posting of property and equipment transactions by: (a) modifying DAFIS to either require users to assign a material asset code or automatically assign a material asset code based on the object class code, (b) ensuring training is provided on using material asset codes to properly post property and equipment transactions, and (c) advising OAs on interim measures to use until DAFIS is corrected.
3. Require OAs to develop and implement a corrective action plan to identify and capture property and equipment acquisition costs incorrectly expensed in prior years to ensure proper presentation of assets on Statements of Financial Position and expenses on Statements of Operations in future years.

Management Position

Officials in the CFO's Office of Financial Management verbally concurred with our recommendations. They agreed to explore the feasibility of modifying DAFIS to require the use of a material asset code and planned to require the OAs to provide training on the proper method of posting P&E transactions. OFM also agreed to develop an action plan to implement Recommendation 3. We are awaiting the CFO's response to the final report.

D. Invested Capital

Adequate internal controls were not in place to compute Invested Capital. The OAs (1) reported Invested Capital based upon unreconciled property records;² (2) did not include an initial investment in a revolving fund as Invested Capital; and (3) did not properly record pre-credit reform loans in Invested Capital. These problems occurred because the OAs did not follow existing procedures in DAFIS for recording Invested Capital, did not reconcile subsidiary property systems with general ledger account balances, and were not aware of the requirements for recording initial investments in revolving funds or pre-credit reform loans as Invested Capital. As a result, the amount of Invested Capital reported at

²We were unable to validate the amount recorded and reported for P&E as discussed in Finding A.

\$28 billion on the DOT FY 1996 Consolidated Financial Statement was not reliable or verifiable.

Discussion

OMB Bulletin 94-01 defines Invested Capital as the net investment of the Government in the reporting entity which includes the acquisition cost of capitalized fixed assets financed by appropriations, pre-credit reform loans financed by appropriations, and additional investments in a revolving fund to commence operations or begin a new activity. DOT Order 2700.12 prescribes Departmental policies and guidelines to ensure uniform and reliable accounting controls and reporting of the Department's investment in property which includes capitalized fixed assets. In addition, the order requires each OA to ensure that a reconciliation of detailed subsidiary records to the general ledger control accounts is performed at least quarterly.

Reliable internal controls over P&E directly impact the accurate reporting of Invested Capital on the financial statement. When capitalized P&E is entered into DAFIS, using the correct material asset codes, the capitalized property is reflected in the appropriate general ledger control accounts. The general ledger control accounts generate an automatic entry to Invested Capital, which results in recording Invested Capital in DAFIS.

However, as previously discussed, the OAs did not follow the DAFIS coding system to ensure that Invested Capital, reported at \$28 billion, was accurately recorded in *DAFIS and reported on the financial statement*. For example, according to FAA officials, Invested Capital and P&E did not equal because the proper material asset codes were not always used. As a result, Invested Capital was misstated. FAA's draft financial statement reported Invested Capital of \$11.2 billion, and P&E and Operating Materials and Supplies, Net of \$9.2 billion--a difference of \$2 billion.

We found that Invested Capital was reported from data provided by various other property systems without reconciling these systems to the general ledger accounts. Six OAs processed net adjustments, totaling \$16.8 billion, at yearend to Invested Capital based on the data provided by the other property systems. Capital investment related subsidiaries records have little or no interface with DAFIS, and no verifications or quarterly reconciliations were performed. For example, the USCG relied totally on data from more than 10 property systems to adjust the Invested Capital from \$6.7 billion in FY 1995, to the reported \$14.2 billion in FY 1996. Reconciliations were not performed because transactions were not capitalized into

DAFIS property accounts, and individuals had not been assigned the responsibility to perform such reconciliations. As a result, the data in the property systems were not verified and the Invested Capital account was not reliable or verifiable.

FHWA did not include an initial investment in a revolving fund as Invested Capital. Our review of FHWA's draft FY 1996 financial statement showed the initial investment of \$280 million in the Right-A-Way revolving fund was not included as Invested Capital. This occurred because FHWA was unaware of the requirement for recording the initial investment of revolving funds as Invested Capital. FHWA made the adjustment to properly reflect Invested Capital on the financial statement.

MARAD did not properly record pre-credit reform loans in Invested Capital. Our review of MARAD's FY 1996 financial statement showed that \$24.3 million in pre-credit reform loans were incorrectly recorded in Cumulative Results of Operations. This occurred because MARAD was unaware of the requirements for recording pre-credit reform loans as Invested Capital. This resulted in an understatement of Invested Capital and an overstatement of Cumulative Results of Operations. MARAD made the adjustment of \$24.3 million on the financial statement.

Recommendation

We recommend the Departmental CFO ensure training is provided to the OAs on procedures for recording Invested Capital and for identifying and properly recording initial investments in revolving funds and pre-credit reform loans as Invested Capital.

Management Position

Officials in the CFO's Office of Financial Management verbally concurred with the finding and recommendation. OFM acknowledged that P&E has been and continues to be a major problem area which affects Invested Capital and agreed that additional training would reemphasize procedures for proper recording. We are awaiting management's response to the final report.

E. Liabilities not Covered by Budgetary Resources

Our reviews of the OAs' draft FY 1996 financial statements showed that total Liabilities not Covered by Budgetary Resources did not equal Future Funding Requirements (FFR) as required. Additionally,

we found that three OAs had incorrectly included unobligated unfunded contract authority as Governmental Liabilities and FFR. Although many general ledger accounts are used in the computations, OST had not provided specific guidance to the OAs on how to properly compute these line items. Consequently, the Department adjusted these line items by \$12 billion.

Discussion

According to OMB Bulletin 94-01, Liabilities not Covered by Budgetary Resources are liabilities incurred which are not covered by available budgetary resources. OMB Bulletin 94-01 also defines FFR as the line item which reflects liabilities reported in the Statement of Financial Position which are not covered by available budgetary resources. Therefore, FFR should agree with the total Liabilities not Covered by Budgetary Resources. Neither the SFFAS Number 5, "Accounting for Liabilities of the Government," nor OMB Bulletin 94-01 specifically address how Liabilities not Covered by Budgetary Resources and FFR should be computed. Further, OMB Bulletin 94-01 does not address how unfunded contract authority should be reported on the financial statement. Congress has provided DOT with unfunded contract authority that permits obligations to be made in advance of appropriations to pay these obligations. Unfunded contract authority is classified as unobligated until FAA, FHWA, and FTA enter into grant agreements and obligate the funds.

OMB Bulletin 97-01, "Form and Content of Agency Financial Statements," which is effective for financial statements beginning in FY 1998, excludes FFR as a separate line item. This amount will be included in Cumulative Results of Operations. However, the Liabilities not Covered by Budgetary Resources will remain as a separate and distinct section on the Statement of Financial Position.

On November 12, 1996, the OIG notified OST that FFR amounts reported by the OAs did not comply with OMB Bulletin 94-01 and that the OAs were inconsistent in computing FFR. Our review of the OAs FY 1995 financial statements showed that FFR exceeded total Liabilities not Covered by Budgetary Resources by \$35.7 billion. In December 1996, OST notified the OAs that total Liabilities not Covered by Budgetary Resources and FFR should agree and OST would work with the OAs to assure greater conformity in the accounts comprising these two line items. However, OST did not specifically tell the OAs that the unobligated portion of the unfunded contract authority should not be considered as a liability in the two line items or which specific general ledger accounts should be used.

The OAs were to follow OST's FY 1994 yearend supplemental guidance that stated that FFR should equal the sum of the (a) unobligated balances, (b) accrued expenditures unpaid, and (c) undelivered orders, minus (d) fund balance with Treasury, and (e) Unrequisitioned Authorized Appropriations. We found that the OAs used various general ledger accounts in computing liabilities and FFR especially for unobligated balances and accrued expenditures unpaid. The OAs said, and we agreed, that additional guidance was needed to specifically identify which general ledger accounts should be used. This would ensure that all OAs would compute liabilities using a consistent methodology.

In December 1996, our reviews of the OAs draft FY 1996 financial statements showed that total Liabilities not Covered by Budgetary Resources did not equal FFR. Our review disclosed that unobligated unfunded contract authority was included in Governmental Liabilities and FFR. However, as previously stated, OMB Bulletin 94-01 does not address how unfunded contract authority should be reported in the financial statement but OST's FY 1994 yearend supplemental guidance stated that it should be used in the computation of liabilities. We determined that the unobligated balances of unfunded contract authority did not represent a Governmental liability since these amounts, by definition, do not represent an obligation to the Government. Therefore, \$12 billion should not be included in total Liabilities not Covered by Budgetary Resources and FFR but discussed in a note to the financial statement. FAA, FHWA, and FTA made these adjustments.

Recommendation

We recommend the Departmental CFO issue revised guidance to the OAs for the FY 1997 Consolidated Financial Statement requiring a consistent method of computing Liabilities not Covered by Budgetary Resources and FFR and instruct the OAs that unobligated unfunded contract authority is not a proper Governmental liability but should be shown as a note to the financial statement.

Management Position

Officials in the CFO's Office of Financial Management verbally concurred with the finding and recommendation. These officials indicated that additional guidance would be sent to the OAs for FY 1997 after meeting with the OAs to determine a consistent method for computing FFR and Liabilities not Covered by Budgetary Resources. The guidance would also instruct the OAs that unobligated unfunded contract authority was not a proper

Governmental liability and should be shown as a note to the financial statement. We are awaiting management's response to the final report.

F. Budget and Financial Statement Reconciliation

DOT did not have adequate controls in place to (1) ensure the Unexpended Appropriations balance reported on financial statements was consistent with related budgetary reports and (2) resolve discrepancies between budgetary reports and their related general ledger accounts. This occurred because of a lack of management attention and OST guidance for reconciling these balances. As a result, DOT is increasing its risk that inaccuracies exist in Unexpended Appropriations included on the financial statement and in the Unobligated Authority and Undelivered Orders reported to OMB on the "Report on Budget Execution" (SF-133).

Discussion

The goal of both the CFO Act and OMB Circular A-127, "Financial Management Systems," is for agencies to develop and maintain financial management systems which provide complete, reliable, consistent, and timely information for management decision making. OMB Bulletin 94-01 and its replacement 97-01, require Unexpended Appropriations to represent undelivered orders and unobligated authority for the reporting entity's appropriation accounts. The Department of the Treasury also requires agencies to report these balances on SF-133 reports based on general ledger accounts.

Our review found the "gross"³ Unexpended Appropriations reported on the draft financial statements was \$1.891 billion less than the unobligated authority and undelivered orders reported to OMB on the SF-133 for September 30, 1996. Most discrepancies⁴ existed in FAA. The other OAs were able to satisfactorily resolve their discrepancies; however, NHTSA, USCG, MARAD, and FRA identified a need to adjust their financial statement and/or SF-133 reports.

³In compliance with OST's guidance, OAs did not include the unobligated authority and all undelivered orders for DOT grant programs in the Unexpended Appropriations line item for financial statement reporting. The portion of the obligations in excess of liquidating authority was reported as Liabilities Not Covered by Budgetary Resources. The unobligated authority was included in note disclosure only. Therefore, all these balances had to be combined to form the "gross" Unexpended Appropriations which was then compared to the balances reported on SF-133 for unobligated authority and undelivered orders.

⁴ Specifics on FAA differences are presented in our FY 1996 FAA Statement Audit Report. Specifics on the difference for the FHWA, NHTSA, and FTA amounts are contained in our FY 1996 Highway Trust Fund Financial Statement Audit Report, Report No. AS-FH-7-007, dated March 27, 1997.

The discrepancies between the draft financial statement and the SF-133 are shown below.

Unexpended Appropriations
Reported on Draft Financial Statement versus SF-133 Report
(\$ in millions)

<u>OAs</u>	<u>Draft F/S Balance</u>	<u>SF-133 Balance</u>	<u>Original Difference</u>	<u>Amount Resolved</u>	<u>Final Difference</u>
FAA	\$3,697	\$5,571	(\$1,874)	\$0	(\$1,874)
Other OAs	<u>55,934</u>	<u>55,598</u>	<u>336</u>	<u>(353)</u>	<u>(17)</u>
	<u>\$59,631</u>	<u>\$61,169</u>	<u>(\$1,538)</u>	<u>(\$353)</u>	<u>(\$1,891)</u>

We verified whether both reported balances were supported by corresponding general ledger account balances--i.e., draft financial statement balances supported by proprietary accounts and SF-133 balances supported by budgetary accounts. Management made a significant number of manual adjustments to the proprietary accounts for financial statement reporting. We concluded these adjustments were legitimate. In the budgetary accounts, however, we found abnormal balances (e.g., negative amount of unobligated authority for unexpired appropriations) and material discrepancies from what was reported to OMB on SF-133 reports. The discrepancies between the SF-133 reports and the General Ledger budgetary accounts are shown below.

Unexpended Appropriations
Reported on SF-133 versus Recorded in General Ledger
(\$ in millions)

<u>OAs</u>	<u>SF-133 Balance</u>	<u>G/L Acc't Balance</u>	<u>Original Difference</u>	<u>Amount Resolved</u>	<u>Final Difference</u>
FAA	\$5,571	\$14,073	(\$8,502)	\$0	(\$8,502)
FHWA/FTA/ NHTSA	52,567	60,999	(8,432)	7,609	(823)
MARAD/ USCG/FRA/ OST/RSPA	<u>3,031</u>	<u>5,084</u>	<u>(2,053)</u>	<u>(30)</u>	<u>(2,083)</u>
	<u>\$61,169</u>	<u>\$80,156</u>	<u>(\$18,987)</u>	<u>\$7,579</u>	<u>(\$11,408)</u>

These discrepancies occurred because of a lack of management attention and procedures for reconciling the budget execution results between budgetary reports and financial reports. For example, FAA management advised us that they are aware of the existence of incorrect balances in the budgetary accounts and the need to examine the processing used to record fund authority and usage transactions in DAFIS. However, they have not been able to allocate the resources needed to resolve discrepancies. Also, FHWA, FTA, NHTSA, and MARAD management all identified conversion errors--some have been existing since the late 1980's--as a primary contributing factor to their discrepancies.

Until these material discrepancies are resolved and corrective actions taken, management does not have adequate controls in place to assure accurate accounting for budget execution results to OMB. Correcting this control deficiency is becoming very critical to:

- The transmission of Adjusted Trial Balances to the Treasury. For FY 1996, DOT transmitted only proprietary account balances for the compilation of Governmentwide financial statement. However, the transmission of adjusted trial balances for the budgetary accounts is expected for the preparation of Governmentwide "Statement of Budgetary Resources" and "Statement of Financing," which are required for FY 1998.
- The success of future financial statement audits because OMB is placing more emphasis on Unexpended Appropriations. Currently, Federal agencies are required to report Unexpended Appropriations and four other net position line items on the financial statement. Under OMB Bulletin 97-01, effective for FY 1998, the other four line items will be combined into one. The Unexpended Appropriations line item stays intact and will have to be reconciled to unobligated authority and undelivered orders.
- The Department's budget submission process. As indicated by the OST Budget Office, the SF-133 report is a key document used in answering congressional inquiries of DOT's financial status.

Recommendations

We recommend the Departmental CFO:

1. Provide departmental guidance for reconciling budget execution results reported on the monthly SF-133 report to both budgetary and proprietary account balances recorded in DAFIS.
2. Require OAs to provide action plans with target dates for completing reconciliations between budgetary reports and financial statements and correcting account balances in DAFIS.
3. Require OAs to adjust current year SF-133 reports submitted to OMB based on the reconciliation results.

Management Response

Officials in the CFO's Office of Financial Management verbally concurred with our recommendations. The OFM staff agreed to work with the OAs and OST budget officials to provide guidance for reconciling budget execution results reported on the monthly SF-133 reports to both budgetary and proprietary account balances recorded in DAFIS. Additionally, OFM will obtain action plans from the OAs for completing reconciliations between budgetary reports and financial reports and have the OAs adjust current year SF-133 reports submitted to OMB. We are awaiting management's response to the final report.

G. Actuarial Model for Estimating Liabilities for Military Retired Pay and Health Care Costs

USCG's reported actuarial liability as of September 30, 1996, was not based on standard actuarial practice which calls for a review of pension plan assumptions (economic, demographic, and other) every 3 to 5 years to determine if they are reasonable. In addition, the USCG did not include an actuarial estimate for retiree health care cost. The OIG's actuarial contractor found that five changes should be made to the basic calculation of the USCG actuarial estimate to more accurately determine the Actuarial Accrued Liability (AAL) and the Accumulated Benefit Obligation (ABO). Factoring these changes into a new calculation, the OIG's actuarial contractor calculated that the AAL was overstated by \$1.1 billion on the draft consolidated financial statement as of September 30, 1996. However, by not including health care in the USCG actuarial computations we estimated that the AAL was understated by \$3.5 billion. As a result, Liabilities not Covered by Budgetary Resources - Pensions and Other Actuarial Liabilities and FFR were understated by \$2.4 billion each on the draft Consolidated Statement of Financial Position.

Our Management Advisory Memorandum, Report No. AD-CG-7-003 transmitted the results of the OIG actuarial contractor to the USCG. The Management Advisory Memorandum contained five recommendations to improve the USCG's actuarial estimates for FY 1997. The five recommendations were for the USCG to (1) review all actuarial assumptions including a comparison of active and retired populations to the Department of Defense (DoD) military active and retired populations, (2) recognize all offsets to retired benefit payments and the liability for former spouses, (3) change the economic and mortality assumptions to those used by DoD, (4) change the salary growth assumptions to better represent the actual promotion and merit increases active duty members receive, and (5) ensure that a valid actuarial estimate for retiree health care is completed for FY 1997.

Our estimate for health care liability used a DoD actuarial report which showed a \$210.2 billion actuarial liability for retiree health care programs as of October 1, 1996. Using a ratio of USCG members to DoD members, we estimate the USCG health care liability to be \$3.5 billion. Our estimate assumes USCG and DoD have similar retiree health care programs and costs, and reflects the ratio of DoD current active and reserve duty personnel and active and reserve duty retirees to similar classifications in the USCG. We also assumed the ratio of retiree dependents and survivors in DoD and USCG were identical.

The USCG agreed to reflect the \$2.4 billion increase in the Pensions and Other Actuarial Liabilities and FFR on the Consolidated Statement of Financial Position and have a note disclosure on how the estimate for health care cost was developed. Our Management Advisory Memorandum has requested the USCG to provide specific target dates on corrective actions planned for the five recommendations. Therefore, we are not making any other recommendations at this time.

H. Intradepartmental Eliminations

Intradepartmental elimination entries were not properly calculated. The draft Consolidated Statement of Financial Position reflected eliminations of \$1.2 billion of assets but only \$117 million of liabilities, and the Statement of Operations reflected eliminations of \$1.4 billion of revenues but only \$341 million of expenses. This was primarily caused by the inability of DAFIS to capture intradepartmental transaction balances and amounts for elimination on the consolidated financial statement, and incomplete OST guidance to the OAs on identifying elimination entries. As a result, we were unable to validate that all elimination entries were identified on the Consolidated Statements of Financial Position and Operations.

Discussion

OMB Bulletin 97-01, General Instructions For the Financial Statements, instruction number 9, was effective for FY 1996. It states, “. . . when agencies present disaggregated information for component organizations, the total column for the entity as a whole should reflect consolidated totals net of intra-entity transactions.” Statement of Federal Financial Accounting Concepts Number 2, “Entity and Display,” dated June 6, 1995, paragraph 77 and SFFAS Number 4, “Managerial Cost Accounting Concepts and Standards For the Federal Government,” dated July 31, 1995, paragraph 246, contain similar requirements.

The purpose of elimination entries is to reduce the overstatement of asset, liability, revenue, and expense line items on the consolidated financial statement arising from intradepartmental transactions. Elimination entries are worksheet adjustments recorded to the consolidating financial statement. However, DAFIS did not have accounting codes built into the application programs to capture and report intradepartmental accounting information requiring elimination for consolidated reporting purposes.

OST's instruction on intradepartmental eliminations was contained in "Guidance for Departmental Financial Statement for FY 1996," dated September 17, 1996. The guidance stated:

Intra-departmental eliminations must be identified to the maximum extent possible. Elimination entries should be provided in a separate column. Eliminated assets should equal eliminated liabilities and net position. Eliminated income and expenses on the Statement of Operations should be carried through to the eliminated net position. The eliminated net position on the Statement of Operations should agree with the eliminated net position indicated on the Statement of Financial Position.

In our opinion, the guidance given to the OAs by OST did not provide adequate detailed, timely instruction or planning for proper accountability and reporting of intradepartmental eliminations.

With this limited guidance, the OAs manually identified, classified, and computed intradepartmental eliminations for submission to OST. Additionally, the OAs did not coordinate their elimination entries with each other. OST used the OAs inputs as submitted and excluded the total amounts from the consolidated financial statement. As a result, material balances were eliminated without a corresponding elimination by another OA.

We found numerous discrepancies with line item elimination entries rolling up into the Departmental combined financial statements. For example, FTA improperly recorded a \$1.1 billion elimination entry to Fund Balance with the Treasury without a corresponding elimination entry by another OA. Also, we found at least a \$44.9 million discrepancy between intradepartmental uncoded advances reported by VNTSC for elimination and balances reported by other OAs as advances paid to VNTSC. We also found approximately \$76.1 million of OST Working Capital Fund payments by the OAs not eliminated and a \$2.9 million apparent prior period adjustment eliminated in error by FAA.

Recommendations

We recommend the Departmental CFO:

1. Modify DAFIS to provide the capability of identifying intradepartmental accounting data requiring elimination at yearend.

2. Improve the yearend closing process for FY 1997 to provide more timely, clear, and detailed guidance to the OAs for identifying and recording eliminations to the consolidated financial statement. At a minimum, the closing instructions should include detailed examples of reciprocating balances, amounts requiring elimination, and require the OAs to coordinate with each other to determine appropriate amounts for elimination.
3. Improve management oversight and technical review in the future by designing yearend closing schedules for submission by the OAs, requiring complete explanation of amounts eliminated by financial statement line item by OA and assuring only reciprocating transactions are eliminated on the consolidated financial statements.

Management Position

Officials in the CFO's Office of Financial Management verbally concurred with our recommendations. They will explore options to modify DAFIS to properly identify intradepartmental eliminations. Until this is accomplished, they will provide more detailed guidance to the OAs to improve the identification and reporting of elimination entries and work with the OAs to design a schedule to ensure reciprocal amounts are identified by the OAs. We are awaiting management's response to the final report.

I. Accounts Payable Liability

About 36 percent of DOT's accounts payable liabilities recorded in the DAFIS subsidiary ledger file were not valid. This occurred because OAs (1) prematurely recorded accounts payable liabilities before goods and services were received and (2) did not reduce the accounts payable liabilities when progress payments were made. As a result, DOT overstated Accounts Payable and understated Unexpended Appropriations balances on the draft Statement of Financial Position by approximately \$319.8 million.

Discussion

SFFAS Number 1, "Accounting for Selected Assets and Liabilities," requires agencies to recognize accounts payable liabilities only for "... goods and services received from, progress in contract performance made by, and rents due to other entities." Appendix A of this standard distinguishes between recording obligations for budget purposes and recognizing a liability for financial accounting

purposes. Under the standard, accounts payable liabilities are to be reduced by the amount of progress payments.

As of September 30, 1996, DOT had 139,806 accounts payable records totaling \$882.5 million in one of the key DAFIS subsidiary ledger files--the Open Document File (ODF). We sampled these accounts payable by three groups⁵ and found a total of \$319.8 million of invalid liabilities. However, we did not find any instances where this improper recording of accounts payable resulted in improper payments to vendors or other entities. Details of the invalid liabilities by OA are shown below.

Accounts Payable Liabilities (\$ in millions)				
<u>OAs</u>	<u>Total Records</u>	<u>Total Amount</u>	<u>Amount Sampled</u>	<u>Invalid Amount</u>
FAA ⁶	83,755	\$543.0	\$243.0	\$293.0
FHWA/FTA/NHTSA ⁷	9,922	\$43.1	\$27.4	\$2.4
USCG/MARAD/FRA/ OST/RSPA	<u>46,129</u>	<u>\$296.4</u>	<u>\$201.1</u>	<u>\$24.4</u>
Total	<u>139,806</u>	<u>\$882.5</u>	<u>\$471.5</u>	<u>\$319.8</u>

The accounts payable liabilities were improperly recorded for two reasons. First, contrary to SFFAS Number 1, the OAs were recording accounts payable liabilities and obligations at the same time; regardless of whether goods and services had been received. This practice has been used for years because of the emphasis placed on budgetary accounting versus proprietary accounting in the Federal government. DOT's accounting staff had not been adequately trained to differentiate between the recording of an obligation for budgetary purposes and recording a liability for financial accounting purposes. As a result, DOT not only recorded invalid liabilities on the draft financial statement but also inconsistently recorded like transactions. For example, procurement contracts were recorded as obligations when entered into DAFIS through an automated system interface, but as liabilities and expenses when manually entered by OAs. In addition, approval for

⁵Group 1 - FAA, Group 2 - FHWA, FTA, and NHTSA, and Group 3 - USCG, MARAD, FRA, OST, and VNTSC.

⁶Results are based on a projection from a statistical sample. Further details are discussed in the FAA FY 1996 Financial Statement Audit Report.

⁷Details are discussed in the Highway Trust Fund FY 1996 Financial Statement Audit Report.

Permanent Change of Station (PCS) moves were recorded as obligations by USCG and MARAD, but as liabilities and expenses by FAA and FHWA. The second reason for invalid accounts payable liabilities concerned FAA's progress payments and is detailed in our report on FAA's 1996 financial statement. DOT subsequently adjusted the financial statement to exclude the \$319.8 million.

These invalid accounts payable liabilities would have been more timely detected and corrected if the OAs had procedures and controls to better monitor accounts payable. This monitoring can best be achieved through the production of special reports. For example, OAs are not currently required to prepare and review an aging accounts payable report. If such a report were prepared and reviewed, many of the problems associated with the recording of accounts payable would have been identified by the OAs.

Recommendations

We recommend the Departmental CFO:

1. Require OAs to provide action plans with target completion dates to review the ODF for valid liabilities and make the necessary adjustments to the accounting records.
2. Provide departmental policy on proper recognition of liabilities with emphasis on the receipt of goods and services.
3. Establish a mechanism to enable OAs to better monitor the validity of accounts payable recording such as the use of an aging report.

Management Position

Officials of the CFO's Office of Financial Management verbally concurred with our recommendations. They agreed to obtain action plans with target dates from the OAs on their review of the ODF for valid liabilities. OFM also agreed to provide departmentwide policy on the proper recognition of liabilities and to establish a mechanism for OAs to better monitor the validity of accounts payable by June 30, 1997. We are awaiting management's response to the final report.

J. Yearend Accrued Liabilities

OAs have not established adequate procedures to accrue liabilities for goods and services received at yearend. This occurred because the current procedures used for estimating yearend accruals did not include uninvoiced or low dollar amount purchases. As a result, DOT understated the Accounts Payable and overstated Unexpended Appropriations line items in the draft Statement of Financial Position by \$342.7 million.

Discussion

SFFAS Number 1 requires agencies to recognize a liability for the unpaid amount of the goods to which agencies have accepted the title. If invoices for those goods are not available when financial statements are prepared, the amounts owed should be estimated.

During the audit of the FY 1996 financial statement, all OAs indicated they estimated yearend accrued liabilities for goods and services received in FY 1996 but not yet paid. Through analytical procedures and reviewing supporting documentation, we determined the amount accrued by FHWA, FTA, and NHTSA was reasonable. However, we found other OAs significantly underestimated yearend accrued liabilities as shown below.

Accrued Liabilities
(\$ in millions)

<u>OAs</u>	<u>Estimated Accrual</u>	<u>Accrued by OAs</u>	<u>Additional Accrual Needed</u>
FHWA/FTA/NHTSA	\$617.4	\$613.4	\$4.0
FAA	\$296.0	\$133.0	\$163.0
USCG/MARAD/ FRA/OST/RSPA	<u>\$215.7</u>	<u>\$40.0</u>	<u>\$175.7</u>
Total	<u>\$1,129.1</u>	<u>\$786.4</u>	<u>\$342.7</u>

For FAA, we statistically sampled disbursements made in October and November 1996, totaling \$280 million. Based on test results, we projected that FAA understated its yearend accruals by \$163 million. Additional details are contained in our report on FAA's FY 1996 financial statement. For the remaining OAs, we statistically sampled disbursements made in October and November 1996, totaling \$144 million, and found \$53 million were paid for goods and services delivered in FY 1996. Based on the results, we project, with 95 percent confidence, that \$215.7 million (plus or minus \$45.8 million) of estimated liabilities and expenses should have been accrued for financial statement reporting. As a result, the remaining OAs understated the Accounts Payable and overstated Unexpended Appropriations line items by about \$175.7 million (\$215.7 million minus \$40 million already accrued by the OAs) on the draft financial statement.

These unrecorded liabilities occurred because procedures used by OAs for estimating yearend accruals were incomplete. FAA estimated yearend accrued liabilities only for goods and services invoiced by yearend but disregarded goods and services that had not been invoiced. The remaining OAs estimated yearend accrued liabilities only for high dollar contract items but disregarded other types of services and deliveries. DOT subsequently adjusted the financial statement by including the \$163 million in FAA's portion of the statement and a note disclosure for the need to recognize the additional \$175.7 million of liabilities and expenses.⁸

⁸The \$175.7 million accrued liabilities were projected based on disbursements made by USCG, MARAD, FTA, OST, and VNTSC. Since the adjustment could not be allocated back to individual OAs, DOT decided to make a note disclosure only.

Recommendation

We recommend the Departmental CFO, in conjunction with the OAs, establish methods to be used for estimating yearend accruals.

Management Position

Officials of the CFO's Office of Financial Management verbally concurred with our recommendation. With the OAs, OFM plans to identify methods to be used for estimating yearend accruals by June 30, 1997. We are awaiting management's response to the final report.

K. DAFIS System Change Requests (SCR)

OFM did not assign resources to DAFIS SCRs which impact the preparation and accuracy of DOT's financial statements. We found two SCRs submitted by OAs to correct material weaknesses in DAFIS processing were not properly evaluated and assigned resources for timely completion. These SCRs would provide the capability to properly process prior period adjustments and assist in reconciling general ledger Work-in-Process (WIP) account balances. These SCRs have not been completed because OFM has issued a moratorium on completing pending SCRs and has effectively closed their SCR evaluation process to additional non-emergency SCRs. As a result, OAs must expend additional resources to track and report direct general ledger adjustments and to manually reconcile WIP accounts without adequate audit trails. The inability of DAFIS to readily process transactions affecting the financial statements reduces the reliability, completeness, and timeliness of financial information and the OIG's ability to perform CFO audits.

Discussion

Both the CFO Act of 1990 and OMB Circular A-127 require agencies to develop and maintain financial management systems which provide complete, reliable, consistent, and timely information for management decisionmaking. Further, OMB Circular A-130, "Management of Federal Information Resources," requires agencies to establish management oversight mechanisms that ensure information systems meet agency mission requirements and to perform periodic reviews of needed changes.

DAFIS lacks the capability to properly record prior year adjustments separately from current year activities. The failure to correct this design deficiency was cited as a material internal control weakness

in OIG's audit report on the FY 1993 FAA's Airport and Airway Trust Fund (Report No. AD-FA-4-012). FAA's initial SCR to correct this weakness was accepted by OST in October 1994 but was not assigned any immediate computer programming resources. FAA resubmitted the request in February 1996 as one of their three highest SCR priorities. However, specifications were not developed by FAA and OST removed the SCR from further consideration. As a result, OAs track prior period adjustments offline from DAFIS and rely upon direct general ledger adjustments totaling at least \$8.98 billion in FY 1996 as a "work-around" to completion of the SCR. (See Finding Y.)

To correct another material weakness, the prior audit report also recommended an SCR be developed to automate (1) reconciliation of a \$1.3 billion discrepancy between detailed job-order cost records and FAA's general ledger WIP account balance and (2) modify the DAFIS Completed Job Orders, WIP, Accrued Cost, and Related Data report (report 32-9F). In 1997, there is still a discrepancy between the WIP general ledger and FAA subsidiary records, and the requirement to automate the analysis process remains valid. The initial SCR to modify the DAFIS 32-9F report was made by FAA in May 1995 and resubmitted in February 1996 as one of FAA's three highest SCR priorities. However, OST did not approve resources for the resubmitted SCR.

In September 1995, OFM determined that the backlog of pending SCRs outstripped available planning and programming resources. OFM asked the OAs to evaluate 217 pending SCRs to determine those which were no longer needed or which had minimal benefit. However, the OAs did not recommend elimination of any SCRs. In January 1996, OST issued a moratorium on completing pending SCRs and requested that each OAs identify their three highest priority SCRs. After receiving these nominations, OFM closed their evaluation process to any additional non-emergency SCRs.

Since then, new SCRs have been identified. For example, OFM did not accept for evaluation a proposed SCR, submitted by FAA in May 1996, that would automate yearend preclosing adjusting entries for various assets and equity accounts. OFM deemed the SCR to be too complicated. Without the proposed SCR, the Non-Operating Changes Balance on the Statement of Operations, and the Net Position Ending Balance are overstated and out of balance with the Total Net Position on the Statement of Financial Position. As a result, FAA must manually adjust the Statement of Operations for each affected appropriation and manually change the adjusted trial balance submitted to the Treasury, totaling \$1.4 billion. FAA estimates they expend an additional 120 hours--including overtime--

in tracking and manually processing of over 400 adjustments needed to complete the Statement of Financial Position and Statement of Operations. In our view, these manual adjustments impact the timely completion of financial statements and heighten the risk for material misstatements. Further, no automated audit trail exists for these external adjustments.

According to OFM's FY 1996 DAFIS development workplan, SCRs have the highest priority. However, SCRs only receive 16 percent (9,576 of 57,479 staff hours) of the planned resources. DAFIS enhancements (e.g., development of the Voucher Examination Module) receive 75 percent (42,773 staff hours) of the total resources. Further, this audit report makes recommendations for 12 system changes to DAFIS. In our view, OFM should establish a plan to prioritize SCRs and correct DAFIS weaknesses which materially affect the financial statements.

In February 1997, OFM officials began a re-evaluation of their backlog of pending SCRs. They assured us the SCR to permit processing of prior year adjustments would be addressed. A decision to re-allocate resources to other pending SCRs has not been made.

Recommendations

We recommend the Departmental CFO:

1. Determine from the OAs all DAFIS processing deficiencies which impact financial reporting and warrant submission of SCRs.
2. Evaluate and prioritize the SCRs identified by OIG and the OAs that impact financial reporting and implement a plan to complete these SCRs.

Management Position

Officials in the CFO's Office of Financial Management verbally concurred with our recommendations. They proposed to (1) identify all processing deficiencies which impact the financial statement and warrant a SCR and (2) evaluate and prioritize SCRs identified by the OIG and OAs and institute a plan to complete these SCRs. We are awaiting management's response to the final report.

REPORTABLE CONDITIONS

L. General Controls for DOT Data Centers

A contractor's review confirmed that the general controls environment at the three data centers reviewed provides reasonable assurance that the financial information processed would not be impacted in a material manner. However, the contractor's review identified four reportable conditions at the Transportation Administrative Service Center (TASC) Computer Center; two reportable conditions at FAA's Computer Resources Nucleus; and four reportable conditions at the USCG's Finance Center. The reportable conditions for each data center are summarized below with recommendations for improvements.

Discussion

A contractor determined the effectiveness of the general controls at the principle DOT data centers which process financial information. The data centers reviewed were:

- TASC Computer Center (TCC) located in Washington, D.C. TCC processing includes the USCG's active duty and retired military payroll, the FTA's GMIS, and the FHWA's financial subsystems.
- FAA's Computer Resources Nucleus (CORN) located in Plano, TX. CORN processing includes DAFIS and Consolidated Uniform Payroll System (CUPS).
- USCG's Finance Center (FINCEN) located in Chesapeake, VA. FINCEN accounting functions include the maintenance of a centralized general ledger system of fund, resource, costs, revenue and property accounts. All financial obligations created by USCG units worldwide, with the exception of three inventory control points, are ultimately processed by the Finance Center.

The evaluation of the DOT data centers included environmental security software controls, operating system integrity controls, physical security controls, operating system change control and maintenance, reliability-availability-stability controls, and enterprise-wide security program as of September 30, 1996.

TASC Computer Center

At TCC, the contractor identified reportable conditions addressing control weaknesses relating to the (1) enforcement of computer security policies and procedures, (2) lack of proper independence in the organizational positioning of the Information Security Manager,

(3) use of undocumented authorized command entries in the operating system data set library file, and (4) lack of on-line communication controls to prevent multiple sessions in the same region. Four recommendations were made to improve the controls at this facility.

Computer Security Policies. TCC has not enforced computer security policies and procedures. As a result, some user organizations do not adhere to recommended computer security policies and procedures. For example, the contractor found for FHWA (1) batch entry jobs submitted through TCC's normal network facility do not require security validations, (2) user accounts with no associated passwords were issued to state agencies for batch data submission, and (3) password standards were not enforced as FHWA allowed users to select passwords as small as three characters, permitted some users to have passwords which were not hidden from view, and did not require users to change passwords in accordance with standards. These security weaknesses increases the risk to FHWA application systems, and to a lesser degree all TCC application systems, of unauthorized activities.

Information Security Program Manager. The information security program manager lacks organizational independence. The security manager, who is responsible for implementing security controls which impact system resources, reports to the TCC operations manager, who is tasked with ensuring timely and efficient use of computer resources. This conflict could result in the security environment being compromised to satisfy operational efficiency. Therefore, the security manager should not be positioned under the operations manager.

Operating System Data Sets. Undocumented and unexplained entries were found in a key operating system data set library

which controls initialization of the operating system. If the library is not adequately protected, a systems programmer or other knowledgeable person could add program code to bypass password checking and data set protection controls or gain control of the system in an authorized state. These unexplained entries should be removed from the program library and evaluated to determine whether they were used for unauthorized purposes.

On-line Communications Security. The main on-line communications system (Customer Information Control System (CICS)) used for production applications allows multiple sessions in the same CICS region. This condition could allow exposures from unattended terminals or sharing of user logon identifications (ID). Multiple logons to the same CICS region should be prohibited.

FAA's Computer Resources Nucleus

At FAA's CORN, the contractor identified reportable conditions addressing insufficient controls to prevent unauthorized access to (1) system security databases and (2) sensitive and powerful operating system utilities. Three recommendations were made to improve the controls at this facility.

System Security Databases. Security guidelines normally require access to system security databases be limited to authorized personnel only. However, users of the CORN platform have unrestricted "read" access to the main security database. These access privileges allow users to browse the database, enabling them to identify valid logon IDs. This could result in a user copying this information, and executing a password cracking utility against the encrypted passwords in an attempt to identify valid logon ID and password pairs. The global "read" privileges for this database should be revoked.

Operating System Utilities. The review of the Resource Access Control Facility (RACF) implementation indicated that powerful system software utilities are not protected from unauthorized access. Failure to protect these utilities could result in accidental or malicious alteration of data and production programs. Powerful utilities should be identified and restricted to appropriately authorized and trained personnel.

USCG's Finance Center

At FINCEN, the contractor identified reportable conditions addressing control weaknesses relating to (1) users with excessive system privileges, (2) lack of security activity logs, (3) lack of adequate password controls, and (4) lack of formally documented system maintenance procedures. Four recommendations were made to improve the controls at this facility.

User Privileges. An analysis of privileges assigned to key personnel (managers, database administrators, system operators and other critical personnel) indicated that several user accounts have sensitive privileges assigned to them which are incompatible with their normal duties. For example, users had bypass privileges that would allow them to override all safeguards. Approval for, and assignment of, these privileges should be documented to assure adequate separation of duties.

Security Activity Logs. Unauthorized use of FINCEN's minicomputers is not controlled or monitored with security logs, making real-time detection of such access difficult. Further, since accounting and auditing log files are not maintained, the ability to review historical security-related events, such as execution of sensitive commands, is limited. In our view, a mechanism should be in place to provide complete audit trails of activity and detect unauthorized system usage.

Password Controls. According to a review of the encrypted password file, password controls at the FINCEN are inadequate. For example, users are not required to periodically change their password or to use passwords with both alphabetic and numeric characters. Approximately 50 users have not changed their initial password. Effective password controls should be in place to ensure financial data are not compromised through unauthorized access.

System Maintenance Documentation. FINCEN does not have (1) documented system maintenance procedures for either of its two minicomputer systems or (2) written policies and procedures for operating system maintenance or formal logs of completed software alterations. All changes to the operating system should be approved and documented to ensure controlled software maintenance and avoid confusion during system regeneration.

Recommendations

We recommend the Departmental CFO:

1. Require all OAs to follow TCC computer security policies and procedures.
2. Change the information security program manager's reporting responsibilities to ensure that the operation and security management functions are independent.
3. Remove undocumented and unauthorized entries and investigate whether these entries been used for unauthorized purposes.
4. Prohibit multiple logons into the same CICS region.

We recommend the Departmental CFO require that FAA:

5. Remove the global entry providing read access to the security databases.
6. Identify all operating system utilities and implement full RACF protection over these programs.
7. Implement a security monitoring program for these utilities.

We recommend the Departmental CFO require that USCG:

8. Evaluate the access privileges assigned to users and develop a system for written approvals for user privileges.
9. Identify and implement alternate commercial software products which provide improved system audit and accounting functions commensurate with available system resources.
10. Implement password controls which require users to periodically change passwords and use passwords which include both alphabetic and numeric characters.
11. Develop procedures for approving, authorizing, installing, and testing operating system changes. The procedures should document the purpose, responsibilities, sign-offs, test results, dates, and other information needed to maintain a complete history of changes made to the system.

Management Position

Officials in the CFO's Office of Financial Management verbally concurred with our recommendations. OFM agreed to initiate corrective action to authorize TCC to enforce security policies and procedures for all user organizations; and to require TCC to change the reporting responsibilities of the security manager, remove and investigate undocumented and unauthorized entries, and prohibit multiple logons into the same CICS regions.

FAA concurred with the Recommendations 5, 6, and 7 and agreed to initiate corrective actions to remove global read access to the security database, implement full RACF protections over all operating system utilities, and implement a security monitoring program.

USCG concurred with the Recommendations 8, 9, 10, and 11 and has initiated corrective actions. USCG officials have completed a review of all user accounts and removed excess privileges. System documentation is being updated to reflect the need for these privileges. USCG has implemented audit software on one of the two minicomputers and is conducting a market search for a commercial package which is not resource-intensive for their smaller machine. USCG also completed actions to implement necessary password controls, centralize system change logs and documentation, and expand their formal security standards to include operating system modifications. Operating system change control is being added to their configuration management plan.

We are awaiting management's response to the final report.

M. Penetration Review of DOT's Integrated Telecommunications Network Environment

Our review of a contractor's penetration study found that the configuration of DOT's Integrated Telecommunications Network Environment (ITNE) prevented the contractor from penetrating mainframe based financial systems. However, the contractor was successful in penetrating numerous other departmental systems in its attempt to gain access to financial systems. The contractor identified eight exposures to the DOT's ITNE in their April 1, 1997, draft report. These exposures represent security problems which could result in the loss or corruption of data or denial of the network services.

Discussion

DOT's ITNE is the Department's extended wide area network (WAN) comprised of the Intermodal Data Network (IDN) and smaller local area networks (LANs) and WANs technologies. IDN is a backbone network connecting hundreds of LANs within the three DOT Headquarters buildings in Washington, D.C. Each OA and other Departmental organizations connect to the IDN as sub-networks. The ITNE supports over 50,000 client workstations, hundreds of servers, and multiple protocols.

A contractor conducted a penetration evaluation of the DOT's ITNE to determine the current effectiveness of network security controls over access to financial systems. The purpose of the network review and penetration testing was to prove the security or vulnerability of DOT financial systems to compromise via access from public networks or internal DOT networks and thus exposure to financial risk, such as theft of information, embezzlement, availability and/or destruction of data. The scope of the contractor's review included seven financial applications hosted at three DOT data centers.

This review was initiated because prior contractor reviews performed for the Department identified weakness in access controls to the IDN. These prior studies did not specifically address access control for the mainframe based financial systems of the Department. The weaknesses identified in the prior studies were significant enough that this condition was reported as a material weakness in the Department's 1996 FMFIA report.

The contractor identified security exposures in the following areas: (1) access to the ITNE, (2) logon IDs and passwords, (3) unprotected devices, (4) security auditing, and (5) host configurations. Because of the potential impact on computer security, the specific findings are not reported in this document.

Recommendation

We recommend the Departmental CFO implement the recommendations contained the contractor's April 1997 report.

Management Position

Officials in the CFO's Office of Financial Management concurred with the intent of the recommendations and will work with the Department's Chief Information Officer to address the contractor's recommendations. We are awaiting management's response to the final report.

N. Applications Computer Security

DOT has not implemented a comprehensive computer security program for DAFIS and major interfacing systems which "feed" financial data to DAFIS. We found applications security deficiencies throughout DOT's financial systems including the lack of (1) computer security planning, (2) computer security training, (3) computer system certifications and accreditations, and (4) password administration. These security deficiencies exist because OST, USCG, FHWA, FTA, and MARAD did not place adequate emphasis on computer security implementation. As a result, the Department has reduced assurance their sensitive financial systems are protected from loss, misuse, and unauthorized access.

Discussion

Federal directives provide guidance for implementing a comprehensive security program for each sensitive system. An effective agency security program includes preparation and implementation of computer security planning including risk analysis, computer security plan, disaster recovery plan, computer security awareness and practices training plan, and system certification and accreditation for each computer system containing sensitive data. The enactment of the Computer Security Act of 1987 (Public Law No. 100-235) established minimum acceptable security practices for systems containing sensitive information. Implementing guidance provided in OMB Circulars, National Institute of Standards and Technology Bulletins, as well as specific DOT guidance, reinforces the Act and provides standards for the cost-effective security and privacy of sensitive computer systems.

We reviewed OST's DAFIS and CUPS; USCG's Personnel Management Information System/Joint Uniform Military Pay System (PMIS/JUMPS), and Retired Pay and Personnel System; FHWA's FMIS, and Federal-Aid Highways Payment Request (PR-20) System; FTA's ECHO System, DOTS, and GMIS; and MARAD's FOX System (a MARAD-managed system used by FHWA for payment

disbursements). Computer security deficiencies we identified for FHWA and FTA with recommendations for improvements are presented in the Report on Fiscal Year 1996 Highway Trust Fund. Specific problem areas we identified for OST, USCG, and MARAD are described below.

Computer Security Planning. DOT did not carry out adequate computer security planning. For example, OST did not develop a computer security plan for CUPS. In addition, USCG and MARAD did not develop risk analyses (with the exception of USCG's PMIS/JUMPS), disaster recovery plans, and computer security plans for their systems we reviewed. According to the Computer Security Act, Federal agencies are required to implement a computer security plan for each sensitive system. According to OMB Circular A-130, Appendix III: Security of Federal Automated Information Resources, a risk-based approach establishes adequate security by considering the value of the system or application, threats, vulnerabilities, and the effectiveness of current or proposed safeguards. In addition, managers should plan and test how they will perform their mission and/or recover from the loss (such as a disaster) of existing application support.

OST did not develop a CUPS computer security plan because of efforts to replace CUPS with the new Integrated Personnel and Payroll System (IPPS). However, because the planned replacement system has been terminated, OST now plans to develop a CUPS security plan. USCG agreed to prepare the necessary (1) risk analyses, (2) disaster recovery plans, and (3) computer security plans for their military payroll systems. MARAD officials agree they are responsible for fulfilling a risk analysis, disaster recovery plan, and a computer security plan for FOX as implemented in the MARAD environment, although the Federal Reserve Bank (FRB) provided the FOX software. MARAD is responsible for fulfilling security requirements based on the environment in which it functions. Similar problems exist in FHWA and FTA including inadequate or non-existent (1) computer security planning, (2) computer security training, (3) certification and accreditation, and (4) password administration. FHWA and FTA agreed to improve and/or develop computer security related requirements for FMIS, PR-20, GMIS, DOTS, and ECHO.

Computer Security Training. MARAD had not verified that FHWA-authorized FOX users had been trained in computer security awareness and accepted computer security practices. OMB Circular A-130 requires all sensitive computer system users receive mandatory security training before using or operating sensitive Federal computer systems. MARAD agreed to verify that all FOX

users are periodically trained in computer security awareness and accepted computer security practices.

Certification and Accreditation. We found OAs had not taken necessary steps to certify, re-certify, or accredit the systems reviewed. For example, OST and USCG systems--CUPS, PMIS/JUMPS, and the Retired Pay and Personnel System--have not been accredited or certified, while DAFIS has not been re-certified or re-accredited since 1991. Also, MARAD has no assurances FOX has been certified or accredited by FRB. DOT Order H 1350.250, "DOT Information Systems Security Guide," requires certification and accreditation of sensitive Federal computer systems. Security certification is needed to test the system's controls are actually working to provide intended protection, and accreditation is the official determination the system meets all applicable Federal policies, regulations, and standards; and that the installed security safeguards are adequate for the application. OMB Circular A-130, Appendix III requires systems be re-certified and re-accredited at least every 3 years or following major system revisions.

OST, USCG, and MARAD plan to take necessary steps to certify and accredit their sensitive systems. OST plans to proceed with steps necessary to comply with certification and accreditation security requirements. USCG procured a consulting firm to perform a risk assessment and security plan for PMIS/JUMPS. The consultant's Final Certification Reports, dated February 20, 1996, resulted in thirty recommendations required to obtain certification. Sixteen of the thirty recommendations have not been implemented by USCG. The remaining recommendations in the report must be implemented prior to USCG certifying and accrediting its systems or USCG should document a cost/benefit risk analysis showing why they are not implementing the recommendations. MARAD should ensure FRB has completed the certification and accreditation of FOX.

Password Administration. USCG did not establish adequate password controls over the Retired Pay and Personnel System. USCG should upgrade the Retired Pay and Personnel System to improve security controls such as (1) limiting the number of sign-on attempts (currently unlimited), (2) requiring passwords to be at least six characters, including one alpha and numeric character (currently any number), and (3) prohibiting the use of null (blank or spaces) passwords. Also, the Retired Pay and Personnel System allows users to log onto the system without a password. DOT Order H 1350.261, "DOT Mainframe Security Software Standards," provides guidance covering password administration and protection.

USCG agreed to correct password administration weaknesses identified by OIG. USCG will implement procedures to increase controls over password access for the Retired Pay and Personnel System.

Recommendations

We recommend the Departmental CFO:

1. Prepare a computer security plan for CUPS.
2. Obtain certification and accreditation for CUPS and re-certify and re-accredit DAFIS.
3. Require USCG and MARAD to develop and implement a corrective action plan with specific target dates for obtaining risk analyses, disaster recovery plans, computer security plans, and certifications and accreditation's for their systems.
4. Require MARAD to verify all FOX users are periodically trained in computer security awareness and accepted computer security practices.
5. Require USCG to implement procedures to increase controls over password usage for the Retired Pay and Personnel System.

Management Position

Officials in the CFO's Office of Financial Management verbally concurred with our recommendations. USCG, FHWA, FTA, and MARAD also concurred with our finding and recommendations. We are awaiting management's response to the final report.

O. DAFIS Batch Controls

Automated internal controls over batch processing within DAFIS should be strengthened. DAFIS does not contain adequate edits to (a) prevent circumvention of batch control totals, (b) prevent unreasonable entries for accounts receivable and recurring charge transactions, (c) identify potential duplicate payments, and (d) ensure budgetary limitations are not exceeded. Further, DAFIS does not comply with core financial system requirements for reprocessing erroneous or deleted transactions and processing transactions from interfacing systems, or process direct reimbursable transactions correctly. As a result, the Department cannot be assured all transactions entered into DAFIS are processed in a timely, complete, and accurate manner.

Discussion

OMB Circular A-123, "Management Accountability and Control," GAO's "Standards for Internal Controls in the Federal Government," and the Joint Financial Management Improvement Program's (JFMIP) "Federal Financial Management System Requirements--Core Financial System Requirements," describe internal control objectives, standards and system requirements. General management control standards require systems to ensure obligations and costs comply with applicable law, and assets are safeguarded against waste, loss, unauthorized use, and misappropriation. To meet these standards, internal controls techniques should provide for separation of key duties and responsibilities, and prompt and accurate transaction processing.

System Edits

System edits are an automated way to determine whether transaction records contain reliable, proper, authorized, and valid data elements. Screen format edits, for example, guide data entry personnel in supplying proper data in the proper location. Table edits determine whether data elements contain valid codes. We identified four areas where DAFIS system edits could be improved.

Batch Control Totals. Batch control totals are a key detective control for accurate and complete data entry in a batch processing system. For these controls to be effective, users must manually compute and enter batch control totals into the batch header record before entering any individual transactions. After all transactions are entered, the system calculates the total number and aggregate dollar amount of the transactions entered and compares these totals to the amounts in the header record. If a discrepancy exists, the

batch will not be processed. However, we observed that data entry personnel did not always follow written procedures. Users could circumvent this control by entering dummy control totals, allowing the system to display the batch totals, and then re-entering the amounts computed by the system into the header record. To allow batch controls to function as intended, DAFIS should mask the calculated amounts from the user.

Reasonableness Tests. Although DAFIS transactions are edited against various tables as they are entered, our test deck transactions determined that additional reasonableness tests could reduce the potential for errors. We found reasonableness edit checks are not applied to dollar amounts entered into the recurring charge master file or to interest rate, penalty, or administrative charges applied to accounts receivable transactions.

Reasonableness edits can supplement manual oversight of transaction processing to prevent erroneous payments. For example, in September 1995, a \$55.2 billion recurring charge payment transaction erroneously entered into DAFIS was not detected by the USCG data entry clerk or the certifying official. However, the payment transaction was halted by the Treasury and FAA officials, who questioned the size of the proposed payment. The USCG admitted their certification review process had failed and that a smaller payment error probably would not have been detected. In our view, the size of the amount field for recurring charges (13 characters) should either be reduced or the system should provide a compensating control--such as a warning to the user--when amounts entered exceed certain limits.

Similarly, our tests showed there are no edits which restrict interest rate, penalty, and administrative charges applied to accounts receivable transactions. Through a special query, we identified 897 records totaling \$970,000 which contained excessive interest or penalty rate charges (e.g. 90.0 percent instead of 9.0 percent), or excessive administrative charges (e.g., \$120 per month rather than \$12 per month). Although we did not test for abnormally low amounts, we observed an instance where the rates were significantly understated (e.g., the penalty rate was 0.006 percent and the administrative charge was only \$.10). These erroneous records misstate the related receivables, revenues and expenses on departmental financial statements.

A key preventative control is adequate written procedures. We determined that the DAFIS user guide does not describe how to enter interest, penalty, and administrative charge rates for all types of receivables. To ensure the accuracy of recording accounts

receivable and related revenue and expense accounts, adequate system edits and written procedures are necessary.

Duplicate Payments. Detective edit checks for disbursement transactions could be strengthened to reduce the potential for duplicate payments. The existing edit compares new transactions to existing transactions on the batch control file, warehouse file, and paid schedule file and provides a warning message of a potential duplicate payment for those transactions with the same vendor type, vendor number, and invoice customer account number. However, the edit check does not include the amount field (a key data element), and the warning flag issued can be easily overridden by the data entry clerk without management review.

According to the DAFIS user guide, the invoice customer account number is a free format data element which “. . . identifies vendor information (invoice, contract number, etc.).” Thus, users can enter anything they want into this field, including the same information for different payment transactions. We frequently saw that the same customer account number or contract number was used to make different payments. This weakens the utility of potential duplicate payments reports which are provided to agency managers. Further, the users do not make effective use of these reports because they contains too many valid transactions.

To reduce the potential for inadvertent duplicate payments and increase the utility of existing management oversight reports, transaction edits comparing vendor type, vendor number, and invoice customer account number should also include the dollar amount. Further, data entry personnel should enter unique information in the invoice customer account number. Finally, supervisory personnel should approve system overrides for transactions flagged as potential duplicate payments.

Budgetary Limitations. Fund authority transactions lack sufficient controls to prevent budgetary limitations from being exceeded. According to our test deck analysis, DAFIS does not have detective controls to prevent the recording of (1) budgetary rescissions in excess of the appropriation balance, (2) apportionments in excess of the appropriation balance, or (3) contract liquidating authority in excess of contracting authority without liquidating appropriation. In our view, DAFIS should either preclude these transactions outright or provide an appropriate warning message to ensure the OAs do not exceed their respective legal budgetary authority.

Core Financial System Requirements

DAFIS does not fully comply with core financial system requirements to (1) use error files to control the reprocessing of erroneous or deleted transactions and (2) provide the same data validation and segregation of duties controls for the processing of interface transactions as for on-line transactions.

Erroneous or Deleted Transactions. According to JFMIP's Core Financial System Requirements, financial systems must provide control over the reprocessing of all erroneous transactions through the use of error files and/or suspense accounts. DAFIS currently holds batches with erroneous records in the batch control file. However, input records deleted by the data entry clerk prior to batch completion, certifier-initiated stop pay transactions, and unprocessed batches (containing unbalanced header and detail records or uncorrected edit errors) at month-end are deleted from the system. The user is required to re-enter these transactions. To ensure proper management oversight and minimize the opportunity for additional reprocessing errors, these transactions should be captured in a suspense file.

Interface Systems. According to Core Financial System Requirements, all transactions from interfacing systems must be subject to the same core financial system edits, validations, and error correction procedures as on-line transactions. This precaution reduces the likelihood of incorrect processing or abnormal program terminations.

We found that certain data validations and segregation of duties which were enforced in on-line batch data entry processes were absent in the generic interface batch entry processes. For example, DAFIS editing programs expect each record in a batch will contain the same agency code. For on-line data entry, this provision is enforced through system security privileges. However, our test deck analysis indicates that generic interface batches containing transactions with two different, but valid agency codes, will not process correctly. Specifically, DAFIS initially validates the agency code in each record in the batch. Later in the processing cycle, the record with a differing agency code will be deleted from the batch and written to a new batch file which is not accessible or visible to the user. The user may then re-balance the original batch without knowledge that a transaction has been deleted, thus creating an exposure that a transaction could be lost and not recorded in DAFIS. To ensure these transactions are properly validated and recorded, DAFIS should capture these transactions in a user-accessible file or reject the entire batch.

Our test deck analysis also confirmed on-line batch entry controls preclude certifying officials from certifying disbursement batches which they entered into DAFIS. However, the generic interface batch entry system does not have a corresponding control. Generic interface batch records do not identify the individual who created the batch. This creates an exposure that a payment batch could be submitted and certified by the same individual. The generic interface batch process should identify the individual who created the batch and preclude this individual from certifying the batch.

Direct Reimbursable Transactions. Our test deck analysis disclosed that certain transactions for direct reimbursable agreements (containing limitation code 6) do not post general ledger accounts correctly. As part of the reimbursable process, DAFIS automatically generates an accounts receivable when an expenditure is made for services or goods provided under the reimbursable agreement. However, our tests for intragovernmental agreements showed DAFIS improperly posts the receivable to a public instead of a governmental account. Further, when we entered a stop payment to reverse the erroneous transaction, DAFIS did not reverse the accounts originally posted. Instead, governmental accounts which should have been originally posted were reversed. Accordingly, intragovernmental accounts receivable and revenue accounts were understated and public accounts receivable and revenue accounts were overstated. In FHWA, this system error resulted in an invalid credit balance in governmental accounts receivable and an overstatement of public accounts receivable totaling \$33.4 million and \$38.6 million, respectively. Agency accounting officials made appropriate corrective adjustments.

Actions Taken. In response to the lack of edits restricting application of interest, penalty, and administrative charges, FAA officials administering DAFIS were reluctant to modify the existing accounts receivable module because the USCG is testing a replacement module from a commercial vendor. They agreed to notify agency accounting officials of the erroneous records containing excessive rates. In our view, since a replacement accounts receivable module is being field-tested, no immediate change to the existing system is needed. However, OST should ensure the replacement system includes a corresponding control. Further, until the new system is in place, OST should periodically review the existing accounts receivable records to identify erroneous records and initiate corrective actions.

FAA officials indicated they would initiate an emergency system change request to correct the direct reimbursable general ledger postings and would defer to OFM officials for guidance on any

additional system modifications. OFM officials indicated the cost of implementing additional edits must be balanced against risks, existing manual compensating controls, and a large backlog of other system change requests.

Recommendations

We recommend the Departmental CFO authorize and implement DAFIS system changes to:

1. Mask batch control totals from data entry personnel.
2. Reduce the size of the amount field for recurring charges transactions to a more reasonably expected payment amount or provide a warning to the user requiring a confirmation when payment amounts exceed certain limits.
3. Modify controls over potential duplicate payments by requiring:
(a) transaction edits which include a comparison of the amount field, (b) entry of unique invoice customer account numbers, and (c) supervisory approval of system overrides of transactions flagged as potential duplicate payments.
4. Establish controls to prevent the recording of, or provide appropriate warning for: (a) budgetary rescissions in excess of the appropriation balance, (b) apportionments in excess of the appropriation balance, and (c) contract liquidating authority in excess of contracting authority without liquidating appropriation.
5. Establish an error or suspense file for all stop payments, deleted transactions, and batches purged immediately prior to month-end processing.
6. Establish controls in the generic interface batch process to capture transactions with agency code discrepancies in a user-accessible file or reject the entire batch.
7. Establish controls in the generic interface batch process to identify the individual who created the batch and preclude this individual from certifying the batch.

To improve controls over accounts receivable transactions, we recommend the Departmental CFO:

8. Issue a user guide amendment to fully describe how to enter interest, penalty, and administrative charges for all receivable types.
9. Ensure controls over interest, penalties, and administrative charges are functional in the proposed accounts receivable replacement module.
10. Periodically review the existing DAFIS accounts receivable file to detect erroneous records and initiate corrective action.

Management Position

Officials in the CFO's Office of Financial Management generally concurred with our recommendations. For Recommendation 1, as an alternative to an immediate system change to mask the batch totals, OFM proposed to re-emphasize the need for data entry personnel to follow existing written procedures for batch preparation and entry. For Recommendation 2, OFM proposed an alternative corrective action to limit the dollar value field for recurring charge transactions. OFM agreed to implement Recommendations 3a and 3b but disagreed with the need to implement Recommendation 3c. OFM believes that with the new edits and revised data entry procedures, existing compensation controls would reduce the need to implement supervisory approvals. For Recommendation 5, OFM agreed to establish a error or suspense file for stop pay transactions and month-end batch purges but indicated additional analysis would be needed before including deleted transactions in a suspense file. OFM agreed to implement the remaining recommendations. We are awaiting the CFO's response on the recommendations.

P. Payroll Systems Change Control

OST did not have a formal software maintenance change control policy to ensure software changes were completed on CUPS. The lack of a formal maintenance policy was due in part to the anticipated replacement of CUPS, which may now be significantly delayed. The System Change Proposal (SCP) procedures for military pay systems in the USCG were not effective. Our review of the USCG Human Resources Services and Information Center's (HRSIC) log of changes to military and retired pay systems showed that target completion dates were not routinely established and inactive proposals were not closed. Without a formal change control policy for civilian payroll, DOT can not assure that changes to CUPS are adequately implemented and the integrity of the application software is maintained. In addition, the lack of target completion dates or close out of inactive SCPs, could affect USCG's management of payroll system changes.

Discussion

Under DOT Order 1350.2, "Departmental Information Management Manual (DIRMM)," it is the Department's policy to ensure software will follow the principles, standards, and guidelines of the Federal Information Process (FIPS) Publications and other Federal guidelines. FIPS Publication 106, "Guidelines on Software Maintenance," contains techniques, procedures, and methodologies to use throughout the life cycle of a software system. Software can become non-functional or faulty due to changes in the environment in which it must operate, the size or sophistication of the user community, the amount of data it must process, or damage to code which is the result of other maintenance efforts on other parts of the system. The software maintenance manager is responsible for keeping the application systems running and to facilitate communication between management, users, and maintainers. The software maintenance manager should ensure all system change requests are formally submitted, reviewed, assigned a priority, and scheduled.

In October 1995, responsibility for CUPS shifted from FAA to OST. OST had not established a formal maintenance policy because of anticipated replacement of the existing civilian personnel and payroll systems with the Integrated Personnel and Payroll System (IPPS). However, the IPPS project was terminated before completion and CUPS continued to function as the Department's civilian payroll system. OST recognizes that CUPS will be the payroll system for at least 2 years and drafted a change control policy in November 1996. However, as of February 1997, the policy was not issued.

HRSIC did not properly maintain a log of all changes made to military and retired pay systems. Of the 112 SCPs listed, we found 105 SCPs were active and 7 SCPs were complete and should be deleted from the log. A review of the 105 active SCPs showed 63 SCPs (60 percent) did not have project completion dates which were critical to ensuring timely completion of SCPs. The HRSIC should revise their SCP log to contain sufficient information to manage the timely completion of SCPs to military and retired pay systems.

HRSIC agreed the SCP Log would be a more useful by deleting completed SCPs, adding SCPs approval dates, and developing target completion dates. HRSIC has started deleting completed SCP from the log and adding SCP approval dates.

Recommendations

We recommend the Departmental CFO:

1. Issue a formal software maintenance policy for making changes to CUPS.
2. Require the USCG to provide an implementation plan with target dates to develop procedures to establish target completion dates for SCPs and delete completed SCPs from the log.

Management Position

Officials in the CFO's Office of Financial Management verbally concurred with our recommendations. OST will issue formalized software maintenance policy for making changes to CUPS. USCG also concurred with our finding and recommendations and is initiating corrective actions. We are awaiting management's response to the final report.

Q. Separation of Duties Over Pay Systems

DOT does not have adequate separation of duties for IPPS, JUMPS, and the USCG Retired Pay and Personnel System. We found (1) DOT employees paid through IPPS can approve their own time and attendance (T&A) report, including premium pay and leave; and non supervisory employees can approve other T&A reports; (2) USCG Payment Approving Officials (PAOs) at the Personnel Reporting Units (PERSRUs) can enter and approve their own pay, leave, and benefit transactions; and (3) a USCG Retired Pay and Personnel System

computer programmer could (a) develop and implement program changes, (b) control access to files, and (c) make changes to the files. These internal control weaknesses exist in IPPS largely because managers were not aware of departmental policies prohibiting self-approval, and DOT Order 2730.10, "Time and Attendance Reporting for IPPS," does not clearly define who should be an authorizing official. The separation of duties weakness for the JUMPS and the Retired Pay and Personnel System exist primarily due to staffing limitations. As a result, management does not have reasonable assurance that the financial information to process pay, leave, and benefits is complete, accurately recorded, properly authorized, and approved.

Discussion

According to GAO Title 6, "Pay, Leave, and Allowances," responsibilities for duties and functions should be sufficiently segregated to provide appropriate internal controls to minimize opportunities for carrying out unauthorized or otherwise irregular acts. Under GAO Title 6, all T&A reports and related supporting documents are to be reviewed and approved by an authorized official, the employees' supervisor or other equivalent officials. However, the head of an agency may authorize particular individuals to approve their own T&A data in certain situations. Such exceptions are intended to apply when it is not feasible to have the T&A data approved by a supervisor. These exceptions include but are not necessarily limited to Senior Executives and employees working alone at a remote site for long periods. In these situations, an official authorized by the agency head must grant advance authority in writing, and agencies must ensure that effective controls are in place.

We found inadequate separation of duties over IPPS. DOT employees paid through IPPS can approve their own T&A reports, including premium pay and leave. Also, non-supervisory employees can approve time and attendance of others.

We found nine OAs on the automated time collection system are allowing significant numbers of self-approvals of T&As. However, MARAD has only one Senior Executive who self-approves and RSPA has no self-approvers. Of the OAs allowing self-approval, 721 employees in grade 15 and below can approve their own T&A record. These employees, including 44 in grade 7 or below, did not receive advanced written authority. We also identified 241 non-supervisory employees in grade 14 and below that can approve T&A reports for other employees. This includes 54 employees in grade 7 or below.

The USCG does not have adequate separation of duties for JUMPS. PAOs at the PERSRUs were able to enter and approve their own pay, leave, and benefit transactions contrary to GAO Title 6. The USCG has 159 PAOs at 48 PERSRUs who were able to enter and approve their own pay transactions. Self-approval of pay transaction should be prohibited.

The primary objective of T&A systems is to ensure that the hours worked, hours in pay status, and hours absent are properly reported. Without adequate separation of duties, management does not have reasonable assurance that the financial information to process pay, leave, and benefits is complete, accurately recorded, properly authorized, and approved.

USCG does not have adequate separation of duties for the Retired Pay and Personnel System. A programmer stationed in Topeka, Kansas can establish and delete users of the Retired Pay and Personnel System. This individual also manages, develops, and implements programming changes, has access to Retired Pay and Personnel System files, and can change the retired and annuitant master files. Furthermore, this programmer had access to change user passwords which should only be performed by the security administrator. In our opinion, this lack of separation of duties is significant and some of these current functions should be reassigned to others.

Recommendations

We recommend the Departmental CFO:

1. Reemphasize to the OAs the need to eliminate the practice of employees approving their own T&As unless they have advanced written authority.
2. Revise DOT Order 2730.10 to incorporate GAO Title 6 requirements for authorizing approving officials.
3. Require USCG to provide an action plan with target dates to prohibit PAOs from entering and approving their own transactions at PERSRUs, and analyze duties performed by the Retirement Pay and Personnel System programmer and reassign functions as necessary to achieve proper separation of duties.

Management Position

Officials in the CFO's Office of Financial Management verbally concurred with our recommendations. OFM is responsible for IPPS and is currently assessing the appropriate action necessary to correct the separation of duties weakness. USCG agreed with our finding and recommendations. USCG officials agree to prohibit PAOs from inputting and approving their own transactions and to evaluate the functions performed by their programmer and reassign work as necessary. We are awaiting management's response to the final report.

R. Retired and Military Pay Edits

USCG's controls over the retired and military pay systems were not adequate. Our testing showed (1) information on deceased recipients was not processed timely, (2) existing controls to prevent payment of deceased individuals were ineffective, and (3) certain relational and automated pay status edits in USCG's military pay system were not effective. If paid, erroneous overpayments would improperly reduce cash accounts and require the establishment of accounts receivable to the Government.

Discussion

Under OMB Bulletin 90-08, "Guidance for Preparation of Security Plan for Federal Systems that Contain Sensitive Information," sensitive systems should include data integrity controls used to protect data from accidental or malicious alteration or destruction. OMB Circular A-130 establishes policy for the management of Federal information resources. According to this circular, technical security controls (e.g., test to filter invalid entries) should be built into each application.

HRSIC used information furnished by DoD to stop pay on deceased retirees and annuitants (the retiree's beneficiary). Bimonthly, HRSIC received from DoD's Defense Manpower Data Center a copy of the monthly "Social Security Administration's Death File" (SSA Death File). Our review showed HRSIC was not receiving the SSA Death File timely. For instance, the Death File received in January 1997 was for October 1996. In addition, HRSIC took almost 2 months to process the Death File received in January.

The edit process within the retired system was not adequate. Our testing of edits within the Retired Pay and Personnel System showed the automated edit process was not effective. For example, during

our testing, we entered a recent death date on a retired member and an annuitant, and found that the system still generated pay for those individuals. After discussing these issues with HRSIC, they established an edit to inform the user that a date of death was entered, and the retiree or annuitant must be placed in a non-pay status.

Relational and automated pay status edits within the military pay system were also not effective. During our testing of the military pay system, we established unusual pay status on members and no warning was given. For example, we (1) initiated flight pay on a Yeoman assigned to an administrative unit, a duty station at which flight pay would be highly unlikely; (2) changed a member's unit without placing the member on travel status or processing a permanent change of station order; and (3) changed a member from an administrative unit to a vessel and initiated Career Sea Pay. In all three cases, pay was made with no edit warning of a potential improper payment.

HRSIC should implement edits to identify and "flag" unusual pay entitlements. HRSIC stated they would evaluate opportunities to use relational edits for unusual payments in the military pay systems depending on cost versus benefit analysis.

Recommendations

We recommend the Departmental CFO:

1. Require USCG to provide an implementation plan with target dates to ensure the SSA Death File is received and processed on a timely basis.
2. Require USCG to provide an action plan with target dates to implement relational and automated edits to warn HRSIC of unusual pay status.

Management Position

Officials in the CFO's Office of Financial Management verbally concurred with our recommendations. USCG agreed to review administrative procedures to obtain quicker Death File matches. USCG will do an analysis to determine the cost effectiveness of implementing edits for the pay system. We are awaiting management's response to the final report.

S. Capital Leases

OAs did not properly identify, account for, and report capital leases. This occurred because neither OST nor the OAs issued procedures for identifying and accounting for capital leases. As a result, capital leases reported at \$103.9 million may have been understated on the FY 1996 DOT Consolidated Financial Statement.

Discussion

OMB Bulletin Number 94-01 and SFFAS Number 6 define capital leases as leases that transfer substantially all the benefits and risks of ownership to the lessee. A lease should be classified as a capital lease if, at its inception, one or more of the following four criteria is met.

- The lease transfers ownership of the property to the lessee by the end of the lease term.
- The lease contains an option to purchase the leased property at a bargain price.
- The lease term is equal to or greater than 75 percent of the estimated economic life of the leased property.
- The present value of rental and other minimum lease payments, excluding that portion of the payments representing executory cost, equals or exceeds 90 percent of the fair value of the leased property.

We reviewed a total of 161 operating leases entered into by six OAs: FAA, USCG, MARAD, FHWA, NHTSA, and FRA. We found 36 of these leases potentially met the criteria to be classified as capital leases. The potential capital leases were entered into by FAA, USCG, MARAD, and NHTSA and represented annual payments of \$4,881,994.

We were unable to determine whether the 36 leases were capital leases because the lease files did not include the estimated economic life or the fair value of the properties at the inception of the lease as required by SFFAS Number 6. However, if any of these operating leases are capital leases, then assets and liabilities reported on the FY 1996 DOT Consolidated Financial Statement will be understated and will not accurately reflect the Department's capital lease commitments.

According to OST officials, DOT Order 2700.8A contains no specific reference to capital and operating leases. In addition, the OAs had not issued procedures to identify, account for, and report capital leases. In our Supplementary Report of Internal Control Systems and Compliance Related to the Airport & Airway Trust Fund Portion of FAA's FY 1993 Financial Statement (Report No. AD-FA-5-005), issued March 29, 1995, we found capital leases may have been inappropriately expensed, and recommended FAA Order 2700.31, "Uniform Accounting System Operations Manual," be revised to properly distinguish between capital and operating leases. The Department should emphasize to the OAs the importance of identifying, accounting for, and reporting capital leases by issuing Departmentwide procedures. This will ensure future financial statements more accurately reflect the Department's assets, liabilities, and expenses.

Recommendations

We recommend the Departmental CFO:

1. Revise DOT Order 2700.8A to incorporate procedures to identify, account for, and report capital leases.
2. Require the OAs to (a) determine fair value and economic life (at the time of inception) for the 36 potential capital leases included in our sample, (b) review their records to determine if any additional leases should be classified as capital leases, and (c) make the necessary adjustments to their financial records.

Management Position

Officials in the CFO's Office of Financial Management verbally concurred with our recommendations. OFM acknowledged the DOT order should incorporate procedures related to capital leases and the OAs should review current leases and make necessary adjustments to their records. We are awaiting management's response to the final report.

T. Accounting and Reporting of DOL Chargeback Costs

OAs did not properly account and report their portion of the Department of Labor (DOL) chargeback costs related to the Federal Employee Compensation Act (FECA). Costs already incurred were not recorded in DAFIS quarterly and reported in the consolidated financial statement. As a result, Liabilities not Covered by Budgetary Resources-Other Intragovernmental Liabilities and FFR were each understated by \$36.2 million on the draft Consolidated Statement of Financial Position.

Discussion

OMB's memorandum to Chief Financial Officers of Executive Departments and Agencies Subject to the CFO Act, dated December 23, 1994, stated liabilities and related expenses associated with FECA should be recognized in general purpose financial reports when they are incurred (accrual basis) regardless of whether they are covered by available budgetary resources. This guidance conforms to SFFAS Number 1 requirement of recognizing assets, liabilities, revenues, and expenses when an event occurs even if funds have not been provided for payment. However, OST's guidance on accounting for DOL chargeback costs did not require the recording of these costs for the quarterly period ended September 30th of each fiscal year.

The understatements by OA is shown in the following table.

UNRECORDED DOL CHARGEBACK COSTS

<u>Operating Administration</u>	<u>FY 1995 Expense</u>	<u>FY 1996 Expense</u>	<u>Total</u>
OST		\$ 40,448	\$ 40,448
FHWA		293,102	293,102
NHTSA		47,893	47,893
FRA		330,014	330,014
FTA		13,495	13,495
FAA		18,359,251	18,359,251
USCG	\$ 8,007,640	6,391,621	14,399,261
MARAD	1,446,272	1,362,129	2,808,401
IG		(44,113)	(44,113)
RSPA	_____	<u>(1,939)</u>	<u>(1,939)</u>
Consolidated	<u>\$9,453,912</u>	<u>\$26,791,901</u>	<u>\$36,245,813</u>

The Consolidated Statement of Financial Position should have reflected the total FECA chargeback costs of \$36.2 million as Liabilities not Covered by Budgetary Resources-Other Governmental Liabilities and Future Funding Requirements. Also, the FY 1995 expense of \$9.4 million should have reduced the Cumulative Results of Operations on the Consolidated Statement of Financial Position. Finally, the draft consolidated financial statement should have reflected an additional \$26.8 million in Program and Operating Expense. The OAs have agreed to make the adjustments.

Recommendation

We recommend the Departmental CFO issue procedures to OAs to ensure FECA costs are identified, recognized, and recorded in DAFIS on a quarterly full accrual basis to ensure they are properly reported in the consolidated financial statement.

Management Position

Officials in the CFO's Office of Financial Management verbally concurred with the finding and recommendation. This office will develop guidance for the OAs to properly record FECA on a quarterly basis. We are awaiting management's response to the final report.

U. Post Employment Benefits

USCG did not properly account for post employment benefits associated with the costs for PCS moves for military service members when the members separate from service. This occurred because USCG personnel were not aware that Financial Accounting Standards Board (FASB) Statement Number 112 requires costs associated with post employment benefits to be expensed and a liability recorded when the benefit is actually earned. Instead, USCG personnel incorrectly delayed reporting these PCS costs as expenses until the costs were paid. As a result, Liabilities not Covered by Budgetary Resources and FFR on the draft DOT Consolidated Statement of Financial Position were understated by an estimated \$56.9 million. In addition, Non Operating Changes on the draft DOT Consolidated Statement of Operations were understated by an estimated \$56.9 million.

Discussion

FASB Statement 112, "Employers' Accounting for Post Employment Benefits," specifies generally accepted accounting principles for post employment benefits. Under Joint Federal Travel Regulations, paragraph U5125-A, a military service member, upon separation or retirement, is entitled to be reimbursed for a PCS move from their current duty station to their enlistment location (home of record) or any other location provided the cost does not exceed the cost the Government would have incurred to move the service member to the home of record. Statement 112 requires that the cost of deferred (post employment) compensation be recorded as an expense and a liability in the reporting period that the benefit is earned. SFFAS Number 5, effective with the reporting period beginning after September 30, 1996, states expenses and associated liabilities for post employment benefits should be recognized at the time a future outflow is probable and measurable based on events occurring on or before the respective reporting period. SFFAS Number 5 further states any part of the expense unpaid at the end of the period constitutes a liability.

USCG did not recognize the expense or establish a liability for end-of-service PCS moves during the period in which military service members earned these post employment benefits. Instead, USCG recognized the expenses in the period the costs for the PCS moves were paid. Using USCG's reported "Military Full-Time Equivalent-Active Duty Military Personnel Workforce," budget estimates for FY 1996 and responses to an OIG questionnaire on PCS costs, we determined USCG at September 30, 1996, had a liability of

approximately \$62.6 million for the PCS moves of military service members upon separation. We reduced the actual numbers of officers and enlisted personnel at the end of FY 1996 because USCG Academy graduates and new recruits during the past 4 years would have only earned a percentage of the post employment benefit.

OIG Estimate of Post Employment Benefits for PCS Costs

<u>Category</u>	<u>No. of Personnel</u>	<u>Average Cost</u>	<u>Unfunded Amount</u>
Officers	5,495	\$3,275	\$17,996,125
Warrant Officers	1,537	3,275	5,033,675
Enlisted	21,336	1,855	<u>39,578,280</u>
			<u>\$62,608,080</u>

USCG officials agreed that a portion of the estimated PCS cost should be expensed and reflected as a liability. Therefore, USCG officials posted an expense and a corresponding liability of \$5.7 million. USCG officials did not agree that the full amount should be recognized because, in their view, acceptance of the service members' request for separation or retirement represents the event leading to the recognition of the expense and associated liability. We disagree because the military service member, under the Joint Federal Travel Regulations, is entitled to the end-of-service PCS and, therefore, the full amount should be recognized. As a result, Liabilities not Covered by Budgetary Resources-Other Governmental Liabilities and FFR on the draft DOT Consolidated Statement of Financial Position were understated by an estimated \$56.9 million. In addition, Non Operating Changes on the draft DOT Consolidated Statement of Operations were understated by an estimated \$56.9 million. We did not determine if other OAs had employees entitled to post employment benefits.

Recommendation

We recommend the Departmental CFO develop and provide guidance for reporting post employment benefits associated with military PCS as an expense when the future outflow is probable and measurable based on events occurring on or before the reporting period.

Management Position

Officials from the CFO's Office of Financial Management verbally agreed to work with USCG officials to seek a clarification of the guidance specified in SFFAS Number 5 regarding the treatment of military PCS costs as post employment benefits. If appropriate, a plan for implementing the requirements in SFFAS Number 5, to include a methodology for estimating the post employment benefits, will be completed 60 days after obtaining the clarification. We are awaiting management's response to the final report.

V. Federal Workforce Restructuring Act of 1994

OAs did not correctly account for costs associated with implementation of the Federal Workforce Restructuring Act of 1994. OST guidance did not address the proper financial reporting of these costs and accounting personnel in the OAs were not aware of the requirement to recognize these costs as expenses or to establish a liability during the proper period. As a result, OAs did not reflect estimated costs of \$33.8 million as expenses or establish a corresponding liability in FY 1995. Instead, the OAs incorrectly reported a portion of the costs as expenses during FY 1996 when the costs were actually paid. For the FY 1996 DOT Consolidated Financial Statement, Program or Operating Expenses on the Statement of Operations were overstated by about \$19.4 million and Liabilities not Covered by Budgetary Resources on the Statement of Financial Position were understated by an estimated \$14.4 million expected to be paid in FYs 1997 and 1998.

Discussion

FASB Statement Number 74, "Accounting for Special Termination Benefits Paid to Employees," requires employers to recognize special termination benefits as a liability and an expense at the time employees accept the offer and the amount can be reasonably estimated. SFFAS Number 4 states that other post employment benefits should be reported as an expense for the period during which a future outflow is probable and measurable on the basis of events occurring on or before the reporting period. SFFAS Number 5 states special termination benefits (such as specially authorized separation incentive programs) are considered other post employment benefits and should be recognized as such.

The Federal Workforce Restructuring Act of 1994 (Public Law No. 103-226) permits the heads of Federal agencies to offer incentive payments up to \$25,000 to encourage employees to retire or resign

from their Federal positions. To be eligible for the incentive payment, employees had to retire or resign by April 1, 1995. However, agency heads were permitted to delay the retirement or resignation until March 31, 1997, to ensure the performance of the agency's mission. The Restructuring Act also required each agency to make two types of special payments to the Treasury for credit to the Civil Service Retirement and Disability Trust Fund. First, Federal agencies are required to make a one-time payment equivalent to 9 percent of the final salary for each employee who retired early and received an incentive payment. Second, Federal agencies are required to make four annual payments, FY 1995 through FY 1998, of \$80 for each of these employees onboard as of March 31 of each year.

Recording Payments. During FY 1995, DOT approved deferred incentive payments for 721 employees with 275 employees having a separation date during FY 1996. The remaining 446 employees are scheduled to separate during FY 1997. Using an average incentive payment of \$24,000 per employee, we estimated incentive payments of \$17.3 million would be paid to employees during FYs 1996 and 1997. None of the incentive payments were recorded as expenses during FY 1995 as required. Instead, the incentive payments were recorded as an expense when paid. As a result, Program or Operating Expenses on the FY 1996 DOT Consolidated Statement of Operations was overstated by \$6.6 million and the FY 1997 DOT Consolidated Statement of Operations will be overstated by \$10.7 million. In addition, the estimated \$10.7 million for incentive payments to be paid in FY 1997 was not recorded as Liabilities not Covered by Budgetary Resources on the FY 1996 Consolidated Statement of Financial Position.

Of the 721 employees approved to receive a deferred incentive payment, 330 employees elected to retire early during FYs 1996 or 1997. These early retirements with an incentive payment created a liability equivalent to 9 percent of the employee's final base pay. Using an average salary of \$50,000, we determined an expense of \$1.5 million with a corresponding liability should have been recorded in FY 1995. During FY 1996, OPM billed and DOT paid \$76,924 for 15 employees. This was incorrectly recorded as a FY 1996 expense. The remaining \$1.4 million will be paid during FY 1997 and accordingly represents a Liability not Covered by Budgetary Resources on the FY 1996 Statement of Financial Position.

DOT made or will make four annual payments per year for FYs 1995 through 1998, based on the criteria in the Restructuring Act. As required, DOT paid \$5.0 million in FYs 1995 and 1996. The

FY 1995 payment was properly reflected as an expense. During FY 1996, FAA recorded the annual payments for FYs 1997 and 1998, estimated at \$7.8 million, as a FY 1996 expense and liability. As a result, Program or Operating Expense on the Consolidated FY 1996 Statement of Operations was overstated by \$12.8 million (FAA's liability of \$7.8 million and the FY 1996 annual payment totaling \$5.0 million). For the remaining OAs, annual payments to be made in FYs 1997 and 1998 estimated at \$2.3 million, were not recorded resulting in understatement of Liabilities Not Covered by Budgetary Resources on the Consolidated Statement of Financial Position.

OST Guidance. On May 26, 1994, OMB issued a supplement to Bulletin 94-04 which stated "... an obligation for the payment of the buyout is incurred when the agreement is signed." OST's Office of Budget issued a memorandum, dated July 22, 1994, to notify OAs of the OMB guidance. Subsequently, on March 29, 1995, the Office of Budget informed the OAs that OMB determined that the buyout obligations occurs at the time Standard Form 52, Personnel Action Request, is signed. However, OST's guidance did not address the financial reporting requirements for the costs associated with the Restructuring Act and accounting personnel in the OAs were not aware of the requirement to record the costs as expenses in FY 1995.

Recommendation

We recommend the Departmental CFO issue detailed instructions to the OAs on how to correctly report the costs associated with the Restructuring Act on the FY 1997 financial statements.

Management Position

Officials from the CFO's Office of Financial Management verbally concurred with our recommendation and indicated detailed instructions for the correct reporting of costs associated with the Restructuring Act will be included in DOT's annual yearend closing instructions. We are awaiting management's response to the final report.

W. Contingent Liabilities for Legal Claims

The DOT financial statement did not properly recognize a contingent liability for legal claims. FAA correctly recognized \$303.7 million on the statements and in a note disclosure for contingencies that would be payable from the Treasury Judgment Fund for asserted and unasserted claims. In FY 1996, \$11.6 million was paid from the

Judgment Fund in expenses for legal claims for DOT. However, from the list of judgment cases provided by the Treasury, it appeared that the cases listed would involve several other OAs. Since the Treasury only tracked payments by department, amounts for each OA could not be determined. The FY 1997 financial statement should disclose all DOT contingent liabilities to be paid by the Judgment Fund.

Discussion

OMB Bulletin 94-01 requires disclosure of estimated losses for commitments and contingencies. The Federal Accounting Standards Advisory Board, in the October 1996 Board meeting, addressed how Federal entities should report the costs and liabilities arising from legal claims to be paid by the Treasury Judgment Fund. These expenses are to be recognized as an other financing source according to the November 1996 issue of "FASAB News," the newsletter of the Federal Accounting Standards Advisory Board.

The Federal Accounting Standards Advisory Board, at their October 1996 Board meeting, approved a summarized interpretation for issuance on accounting for Treasury Judgment Fund transactions. The Judgment Fund, with a permanent indefinite appropriation, was established in the 1950's by Congress to pay, in whole or in part, the court judgments and settlement agreements negotiated by the Justice Department on behalf of Federal agencies, as well as certain types of administrative awards. The interpretation states that, in accordance with SFFAS Number 5, a contingent liability should be recognized when a past event or exchange transaction has occurred; a future outflow or other sacrifice of resources is probable; and the future outflow or sacrifice of resources is measurable. If the agency's management, as advised by the Justice Department, determines that a legal claim will end in a loss and the loss is estimable, the agency would recognize an expense and liability for the full cost of the expected loss, regardless of who is actually paying the judgment amount. The expense and liability would be adjusted as necessary, based on any changes in the estimated loss.

The newsletter goes on to say, "Once the claim is either settled or a court judgment is assessed against the federal entity and the fund is to pay the loss amount, the liability should be removed from the financial statements of the entity that incurred the liability and an 'other financing source' amount (which represents the amount to be paid by the Judgment Fund) would be recognized."

We found no evidence that contingent liabilities for any OA had been entered in the General Ledger Account #29BX "Contingent

Liabilities” in DAFIS. FAA was the only OA to recognize a liability of \$303.7 million that would be payable from the Judgment Fund. However, \$11.6 million was paid by the Treasury for all OAs in DOT.

Although the amount paid by the Judgment Fund is not material to this financial statement, procedures to recognize future payments should be established for FY 1997. OAs should also be reminded that contingencies that are probable and estimable should be included in the accounting records and in the financial statements.

Recommendations

We recommend the Departmental CFO:

1. Work with the Treasury to identify Judgment Fund payments by OA within the DOT.
2. Issue guidance to the OAs for the FY 1997 Consolidated Financial Statement concerning the recognition of (a) contingencies that are probable and estimable in the financial statement and in the accounting records and (b) costs paid by the Treasury Judgment Fund as an “other financing source” in the financial statement and accounting records.

Management Position

Officials in the CFO’s Office of Financial Management verbally concurred with the finding and recommendations. OST received a copy of the list of payments provided by the Treasury and agreed to work with the Treasury to identify the payments by each OA. Also, OST agreed to issue guidance to the OAs for FY 1997 concerning the recognition of contingent liabilities for legal claims. We are awaiting management’s response to the final report.

X. Canceled Appropriations

DOT did not have adequate controls over assets and liabilities deleted from canceled appropriation accounts. This occurred because OAs did not comply with departmental guidance in reviewing canceled appropriations before yearend. As a result, over \$100 million of assets and liabilities were deleted from the Department’s official accounting records without proper management review during FYs 1995 and 1996.

Discussion

According to the Treasury Financial Manual Bulletin No. 96-03 "Yearend Closing," fixed-year appropriations, once expired, will remain available for liquidation purpose for 5 years. At the end of the fifth year, these appropriation accounts shall be closed and any remaining balance in the account shall be canceled. Accordingly, OST in its yearend closing instructions, dated July 30, 1996, required OAs to reclassify or deobligate remaining balances in these appropriations before yearend. Any remaining balances would be deleted by DAFIS during yearend closing.

Our review indicated DAFIS deleted a total of \$48 million of assets⁹ and liabilities during FY 1995, and \$52 million of assets and liabilities during FY 1996 yearend closing. The totals by line item follow.

Assets-	-Receivables from Public	\$89,000
	-Other Assets	3,960,000
	-Advances to Other Agencies	1,393,000
	-Unresolved Cash Reconciliation	1,527,000
	-Property	83,146,000
Liabilities		<u>9,958,000</u>
	Total Deleted Assets and Liabilities	<u>\$100,073,000</u>

The property, totaling \$83 million, deleted from DAFIS was added back to the Department's financial statement through yearend manual adjustments. The other assets totaling \$7 million and liabilities of almost \$10 million were written off. Although not material to the Department's financial statements, these assets and liabilities should not have been deleted from official accounting records without proper review and approval. This occurred because (1) OAs were not complying with departmental yearend closing instructions to reclassify remaining balances in canceled appropriations and (2) the Department did not have a mechanism for identifying noncompliance for followup actions.

Recommendations

We recommend the Departmental CFO:

1. Reemphasize to the OAs the importance of compliance with yearend closing instructions for reclassifying asset and liability balances in expired appropriations before cancellation.

⁹This does not include fund balance with the Treasury and unrequisioned cash since these assets are returned to the Treasury upon cancellation of expired appropriations.

2. Develop a management exception report listing assets and liabilities deleted from canceled appropriations for OST management review and followup.

Management Position

Officials of the CFO's Office of Financial Management verbally concurred with our recommendations. The CFO staff plans to reemphasize to the OAs the importance of reclassifying asset and liability balances in expired appropriations before cancellation and develop an exception report listing assets and liabilities deleted from canceled appropriations for their own review and followup by June 30, 1997. We are awaiting management's response to the final report.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

OMB guidance for implementing the audit provisions of the CFO Act requires auditors to assess the reporting entity's compliance with applicable laws and regulations. Compliance with laws and regulations applicable to the DOT is the responsibility of DOT management.

As part of obtaining reasonable assurance about whether the DOT Consolidated Statement of Financial Position was free of material misstatements, we tested compliance with the laws and regulations directly affecting the financial statement and certain other laws and regulations designated by OMB and OST General Counsel. Our objective was not to provide an opinion on overall compliance with these provisions.

Material instances of noncompliance are failures to follow requirements or violations of prohibitions contained in laws or regulations which cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the principal statements or the sensitivity of the matters would cause them to be perceived as significant by others.

Except as described below and discussed in the internal control weaknesses, the results of our tests of compliance indicted with respect to those items tested, DOT complied in all material respects with the provisions of the laws and regulations directly affecting the DOT Consolidated Statement of Financial Position as of September 30, 1996.

Y. General Ledger Adjustments

Adjustments can be made to the general ledger file that bypass normal approval, edit, and file management processes. During FY 1996, FAA's Accounting Functional Division processed 53 general ledger adjustment requests totaling about \$9.6 billion to correct DAFIS general ledger account balances. These adjustments, generally made because DAFIS lacks the capability to properly process prior period adjustments separate from current year activities, were recorded directly into the general ledger file as an adjustment of the beginning balance without updating any subsidiary files and without an adequate audit trail. The bypassing of normal DAFIS edits and the lack of a clear audit trail create an exposure for reporting an incomplete or inaccurate representation on the Department's financial statements.

Discussion

According to OMB Circular A-127, the design, development, operation, and maintenance of agency financial management systems shall conform to the functional requirements contained in the Federal Financial Management System Requirements for Core Financial System Requirements issued by JFMIP. Included in the Core Financial System Requirements guidance, issued in September 1995, are general ledger processing requirements to:

- Use standard transactions to control transaction editing, posting to appropriate general ledger accounts, and updating of other information maintained in the system.
- At yearend, provide for the capability to post to the current year by month, as well as to the prior year, regardless of when yearend closing occurs. For example, a user should be able to post to the previous fiscal year, while also posting transactions to the new year.
- Provide an adequate audit trail for transactions critical to providing support for balances maintained by the core financial system. For example, audit trails should allow for the detection and systematic correction of errors as they arise. Such audit trails should be able to trace transactions from the source documents, original input, and other systems through the core system. Further, transaction processing should subject all transactions to system edits, validations, and error correction procedures.

OAs requested general ledger adjustments to correct the effects of accounting errors, incorrect or incomplete manual and automated yearend closing entries, computer program errors, and to account for transactions processed outside of DAFIS such as inventory. These non-routine general ledger adjustments can have a significant impact on the Department's consolidated financial statement. For example, in FY 1996 FRA requested over \$6.76 billion in adjustments primarily to reclassify equity accounts. FWA requested adjustments totaling \$466 million because the agency had not manually closed the accounts at yearend or instructed OST to include rescission accounts in the automated yearend closing process. Total requested adjustments for FY 1996 are shown below.

Amount Adjusted (in millions)						
<u>Agency</u>	<u>No. of Requests</u>	<u>Total</u>	<u>Accounting Errors</u>	<u>Year-End Closing Problems</u>	<u>Activities Outside of DAFIS</u>	<u>Computer Program Errors/ Other</u>
FRA	3	\$6,756.8	\$6,756.6			\$ 0.2
MARAD	2	1,064.6	1,064.3			0.3
FHWA	7	572.9	100.8	\$471.9		0.2
FAA	18	474.0	102.2	369.4		2.4
USCG	10	409.2	0.1		\$406.2	2.9
OST	8	194.8	2.5	18.9		173.4
NHTSA	2	69.1	69.1			
Other	<u>3</u>	<u>33.4</u>	<u>31.0</u>	<u> </u>	<u> </u>	<u>2.4</u>
Totals	<u>53</u>	<u>\$9,574.8</u>	<u>\$8,126.6</u>	<u>\$860.2</u>	<u>\$406.2</u>	<u>\$181.8</u>

Since the general ledger file does not contain a data element for adjustments, FAA personnel at the Mike Monroney Aeronautical Center (MMAC) use a special software routine to adjust general ledger beginning balances. A "snapshot" of the before and after general ledger account balance, along with the input transaction, is written to a MMAC database file, but this file is not accessible to users or OST personnel. These adjustments are not processed through any edit routines and do not update the transaction history file (batch control file) or any subsidiary files, such as the ODF. Since these adjustments are not recorded in the batch control file, DAFIS's Management Information Reporting System, which provides details on general ledger balances, is also not updated. Further, existing query programs available to DAFIS users will not show evidence of the adjustment.

To control the use of these adjustments, OST orally instructed the OAs' accounting representatives in FY 1995 to submit all requests

for adjustments to general ledger beginning balances to OFM for approval. However, our review found that of the 32 requests made by OAs to change beginning balances, 19 requests, almost 60 percent, valued at about \$1 billion were submitted directly to FAA officials without OFM approval.

The extensive use of non-routine general ledger adjustments represents a significant control weakness as they bypass normal edit and validation procedures, lack an adequate audit trail, and do not update subsidiary records. Therefore, in our view, these deficiencies represent a material nonconformance with JFMIP requirements for use of standardized transactions and transaction control. Although the adjustment requests were reviewed by MMAC system accountants--and we did not detect any adjustments not authorized by OA accounting officials--an exposure exists where invalid or incomplete data could be processed or valid data deleted without an audit trail. Accordingly, erroneous adjustments could go undetected during normal day-to-day operations or financial audit review. Since implementing prior-year adjustment capability in DAFIS requires detailed analysis, we recommend OST management take immediate steps to strengthen controls over current operations and develop a plan to comply with JFMIP requirements.

Recommendations

We recommend the Departmental CFO:

1. Provide immediate actions to strengthen controls over the use of non-routine general ledger adjustments by:
 - a. Reducing the need for adjustments by performing an extensive review of the yearend closing processes--both manual and automated--and initiate steps to automate all appropriate account closings.
 - b. Emphasizing the need to record manual closing entries on a timely basis.
 - c. Providing written guidance on needed approvals of all adjustments.
2. Implement a plan, including target completion dates, to comply with JFMIP requirements for use of standardized transactions and transaction control by:
 - a. Adding a data element for prior period adjustments to the general ledger file.

- b. Incorporating into DAFIS an edit which prohibits changes to general ledger beginning balances.
- c. Requiring that general ledger adjustments be processed through editing programs.
- d. Establishing a subsidiary file, accessible to authorized users, to record all general ledger adjustments.
- e. Modifying on-line inquiry routines and general ledger reports to show the amount of adjustments to the beginning balances.

Management Position

Officials in the CFO's Office of Financial Management verbally concurred with our recommendations. For Recommendation 1, OFM promised to review the yearend closing process, emphasize to the OAs the need to record manual closing entries, and provide written guidance on needed approvals for making general ledger adjustments. While concurring with Recommendation 2, they will determine the level-of-effort and costs of making changes to DAFIS implementing any changes. When evaluating the level-of-effort and costs of making changes to DAFIS, we request OST to consider the (1) impact of deficiencies in DAFIS on preparing future financial statements and (2) costs of manual controls which will be necessary to provide adequate audit trails. We are awaiting management's response to the final report.

Z. Performance Measures

In the overview for the DOT Consolidated Financial Statement for FY 1996, OST included information on performance measures for each OA. However, the OAs' performance measures did not always have goals and trends included as required by the OMB Bulletins. As a result, information regarding the measurement of DOT's effectiveness in accomplishing its mission was not disclosed, thereby reducing the usefulness of the financial statements.

Discussion

The CFO Act of 1990 states that an agency Chief Financial Officer is required to develop and maintain an integrated agency accounting and financial system, including financial reporting and internal controls which, among other things, provides for the systematic

measurement of performance. Additionally, OMB Bulletin 94-01 states each annual financial statement should include a narrative overview of the reporting entity which includes information on whether and how the mission of the reporting entity is being accomplished and should include measures of program performances. Requirements set forth by OMB Bulletin 94-01 are further supplemented by OMB Bulletin 97-01. It states performance measures should relate to purposes and goals, and be consistent with measures previously included in budget documents and other materials related to the Government Performance and Results Act (GPRA).

The bulletins state that the measures should present outputs and outcomes, include positive and negative results, explain the significance of trends, and provide goals and comparisons of results to benchmarks. However, our review of the information provided on each OA's performance measures showed that only the measures for the USCG met all the OMB requirements. Generally the other OAs measures did not include goals or information on the significance of trends.

OST did not include departmentwide performance measures in the overview. OST officials indicated they are developing departmentwide goals and measures to reflect a high-level, crosscutting view across DOT. They also identified the following outcome areas as the basis for developing departmental performance measures: Mobility; National Security/National Defense; Safety; Environmental Protection; and Technological Progress. In future statements, OST's intent is that the performance goals supporting each of the outcome areas will be clearly stated and include high level goals with target performance levels and specific measures.

In our audit of the Highway Trust Fund (HTF) FY 1996 Financial Statement, we reported that FHWA's eight performance measures for fiscal services did not meet OMB requirements. The other HTF performance measures met requirements. We also reported that FAA's FY 1996 financial statement did not include performance measures, as described by OMB Bulletins, and was not consistent with FAA's GPRA implementation efforts. FAA recognizes the need to integrate the GPRA performance measures into its annual report and will do so once the measures are refined and supported by auditable and verifiable data.

Recommendations

We recommend the Departmental CFO:

1. Provide the OAs with guidelines to ensure consistency with OMB requirements in reporting performance measures in the stand-alone FAA and HTF financial statements as well as in the consolidated financial statement.
2. Ensure that the performance measures included in the FY 1997 Consolidated Financial Statement provide sufficient information by which the results of the OA programs and departmentwide efforts can be systematically measured.

Management Position

We are awaiting management's response to the final report.

PRIOR AUDIT COVERAGE

OMB Bulletin 93-06 requires disclosure of the status of known but uncorrected significant internal control findings (and associated recommendations) from prior audits that affect the objectives of the current audit. Since 1991, the OIG has issued 30 audit reports on financial statements prepared by the OAs within the Department. These audit reports identified numerous problems associated with these financial statements and included recommendations for corrective action. The status of the recommended corrective actions contained in prior audit reports was evaluated during this audit of the consolidated financial statement. The previous recommendations were either resolved, immaterial to the consolidated financial statement based on the amount of dollars associated with the control weakness, or addressed in the body of this report as current deficiencies warranting further corrective actions.

This report is intended to inform Congress, OMB, and those with management responsibility for DOT. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Joyce N. Fleischman
Acting Inspector General

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SECTION II

**Contains the consolidated financial statement and related notes
(information can be scanned)**

SECTION III

Supplemental Information Includes the Following:

Message from the Chief Financial Officer

Management Overview

Combining Statements of Financial Position and Operations

For further information, please contact Chris Kent of OST on (202) 366-5622

A MESSAGE FROM THE CHIEF FINANCIAL OFFICER

This year is the first time that the Department of Transportation (DOT) has presented to the American public, in one document, a comprehensive overview of our major programs, overall financial position, and the resulting benefits and value added services.

In addition to this FY 1996 audited DOT financial statement, separate audited financial statements were issued for the Highway Trust Fund, the Federal Aviation Administration, and the Saint Lawrence Seaway Development Corporation.



Much has changed in the way we do business at DOT. By using modern business technologies, best practices, and a more common sense approach in our operations, we initiated and completed many actions that improve our services, enhance safety, improve the transportation infrastructure, and reduce operational costs. This report describes activities that are bringing to life the goals of DOT's Strategic Plan to ensure a safe, environmentally sound, and efficient transportation system that will enhance the quality of life for our people in the years to come. More specifically, it shows how our efforts are benefiting the American public.

- *Investment in transportation infrastructure is at the highest level ever, linking communities so more American people can reach their jobs.*
- *Transportation-related fatalities, both land and sea, have dropped significantly over the years.*
- *Security levels have been increased at U.S. airports.*
- *50,000 aids-to-navigation are operated and maintained.*
- *Construction of the Interstate Highway System is virtually (99.9 percent) complete.*
- *Nearly 2 million commercial motor vehicles were safety inspected in 1995 alone.*
- *National safety belt usage is currently at 68 percent.*
- *7,350 bridges were improved in the last 4 years.*
- *An estimated 63 percent of the active fleet of the national fixed-bus system is now lift-equipped for disabled Americans.*
- *\$27 million in administrative costs was saved in FY 1996 by using the Government Small Purchase Credit Card.*

We hope our readers, the Congress, the Office of Management and Budget, the transportation industry, and the American public, will find our report interesting and useful. Readers who would like additional information about our programs and our organization may view our Internet Web Site at <http://www.dot.gov>.

This report fulfills our obligation for FY 1996 to prepare an audited consolidated financial statement, as required by the Chief Financial Officers' Act of 1990 and the Government Management Reform Act of 1994.


Louise Frankel Stoll

Departmental Overview

What We Do

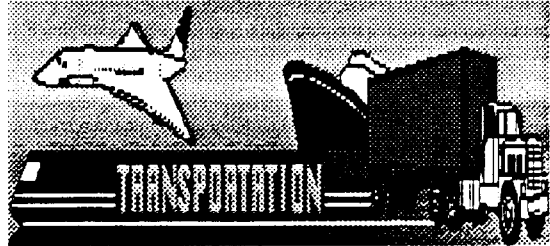
The U.S. Department of Transportation (DOT) establishes National Transportation Policy for the Federal Government. It is responsible for ensuring the safety of all forms of transportation; protecting the interests of consumers; establishing international transportation agreements; conducting transportation planning and research for the future; and helping cities and States meet their local transportation needs through financial and technical assistance.

How We Got Started

Although as early as 1949 a taskforce had recommended a cabinet-level agency for transportation, the idea was shelved until President John F. Kennedy's 1963 State of the Union Address. President Kennedy followed up on that speech by sending Congress a message arguing that, *"If action is not taken to establish a transportation policy consistent with the new demands of the economy, we face serious problems in both the transportation industry and the economic life of the Nation which it affects."*

Finally in 1967, through strong support during the Johnson Administration from Charles Schultze in the Bureau of the Budget, Federal Aviation Administration (FAA) Administrator

Najeeb Halaby, and Alan S. Boyd, an Undersecretary of Commerce, the Department of Transportation was created.



Our Mission And Blueprint For The Future

To position the Department for success in the next century and in line with "Reinvention" principles espoused by the National Performance Review, a Strategic Plan for DOT was established in 1994 to ensure that our transportation system continues to serve our country's goals and enhance the quality of life for our people. The Secretary of Transportation established the following mission and goals:

The Department of Transportation will "Tie America Together" with a safe, technologically advanced, and efficient transportation system that promotes economic growth and international competitiveness now and in the future, and contributes to a healthy and secure environment for us and our children.

- 1. "Tie America together" through an effective intermodal transportation system.*
- 2. Invest strategically in transportation infrastructure, which*

will increase productivity, stimulate the economy, and create jobs.

3. Create a new alliance between the Nation's transportation and technology industries, to make them both more efficient and internationally competitive.

4. Promote safe and secure transportation.

5. Actively enhance our environment through wise transportation decisions.

6. Put people first in our transportation system by making it relevant and accessible to users.

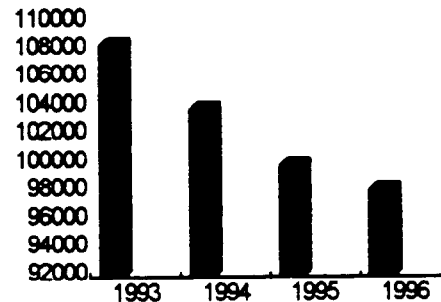
7. Transform DOT by empowering employees in a new team effort to achieve our goals.

The Strategic Plan results to date can be seen in many ways: the increase of *transportation* infrastructure investment to its highest level ever--22 percent more than the average annual level of investment by the previous Administration; the establishment of almost 40 international aviation agreements to open markets and create jobs for U.S. airlines, to increase opportunities for travelers, and to improve the health of America's aerospace and shipbuilding industries; the implementation of a wide range of new initiatives to change our culture and make the Federal Government work better, cost less and be more responsive to our customers.

Our Operating Administrations

DOT's Operating Administrations and the Office of the Secretary (OST) collectively oversee and manage air, land, sea, and space transportation and promote safety, security and efficiency of transportation in support of national priorities. There are about 100,000 civilian and military employees at DOT who are committed to creating the best possible transportation system for America.

DOT Full Time Equivalent Levels*
By Fiscal Year

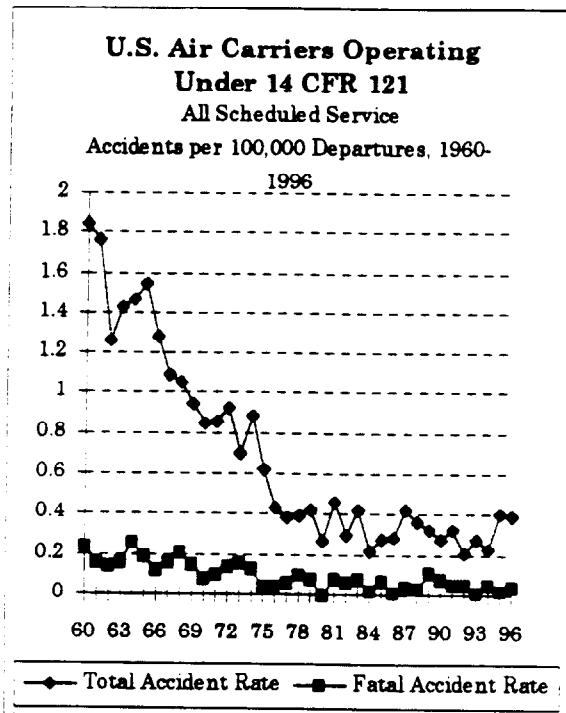


* Includes USCG military

Federal Aviation Administration (FAA)

For nearly three-quarters of a century, the U.S. Government has provided for the safe and orderly growth of civil aviation and the management of the Nation's

airways. In 1958, to meet the demands of the emerging jet age, Congress created FAA, and charged the new agency with a twofold mission: to promote air safety and to foster air commerce. With the passage of the Federal Aviation Reauthorization Act of 1996 (Public Law 104-264), the Congress formally recognized the FAA's long-standing emphasis on its safety mission by eliminating the promotion of air commerce from its legislative mandate.



Since 1960, the accident rate for U.S. Air Carriers operating scheduled passenger service (under 30 or more seats) has dropped from 1.84 accidents for every 100,000 departures to 0.39 accidents. Yet, over the same period, total scheduled airline departures have increased from 3.9 million a year to 11.7 million, and the number of

passengers has grown from 62 million to 605 million. These dramatic gains in safety are due to the coordinated and dedicated activities of the entire agency and the aviation industry.

In 1996, two devastating accidents involving large carriers drove the fatal accident rate up from 0.025 accidents per 100,000 departures to 0.037. The total accident rate among these carriers declined, however, from 0.42 to 0.39 per 100,000 departures.

To fulfill its safety mission, FAA maintains a well-trained, multi-disciplined work force of over 48,000 employees organized along seven lines of responsibility:

- Air Traffic Services
- Regulation and Certification
- Research and Acquisition
- Airports
- Civil Aviation Security
- Administration
- Commercial Space Transportation

Major Programs

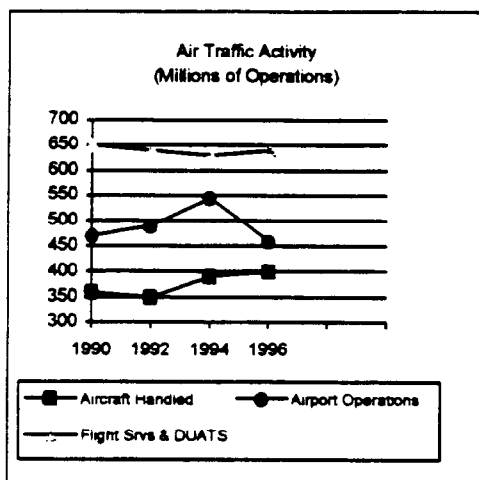
Air Traffic Services

FAA is one of the few non-defense Government agencies that operates 24 hours a day, 365 days a year.

Departmental Overview



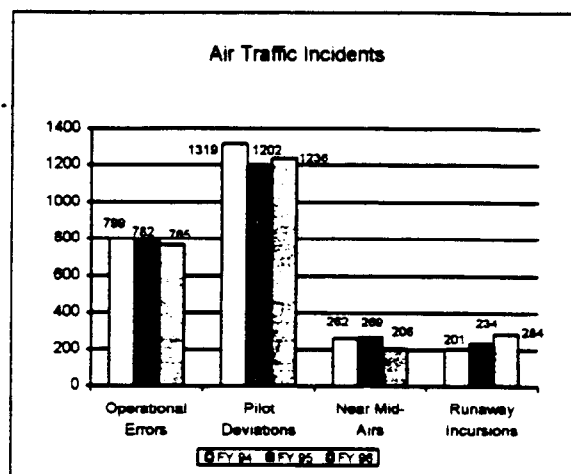
FAA provides the civil and military aviation community with three types of air traffic services: air traffic control tower services at 315 airports; traffic surveillance and aircraft separation by 21 air route traffic control centers; and flight planning and pilot briefings at 90 flight service stations.



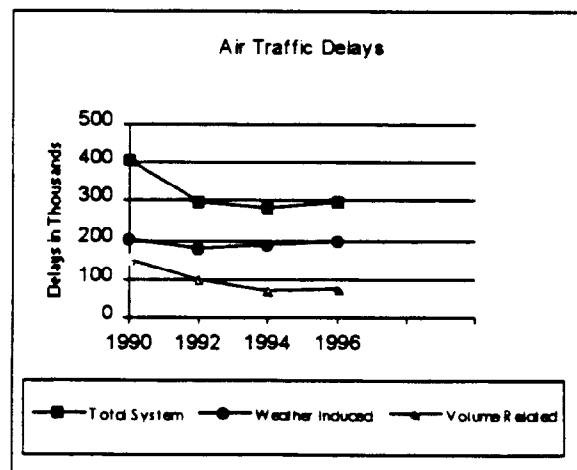
On a typical day, air traffic controllers handle two flight operations *per second*, moving over 1.6 million air travelers safely to their destination. The U.S. also has the largest and most active population of general aviation pilots in the world. In fiscal year (FY) 1996, FAA flight service specialists processed an estimated 12 million flight plans and

supplied more than 17 million briefings for general aviation pilots.

While the demand for air traffic services has grown steadily, consistent progress has been made in significantly reducing the number of potentially hazardous incidents — including near midair collisions, and operational errors. New equipment is being deployed now to reduce the number of runway incursion incidents.



Delays, excluding those attributed to weather, also declined for the third consecutive year.



Departmental Overview

FAA maintains the National Airspace System (NAS) infrastructure to support air operations in the U.S. At the end of FY 1996, there were over 34,000 pieces of sophisticated electronics equipment in the NAS—maintained at peak efficiency and 99.84 percent availability by FAA technicians and engineers. During FY 1996, FAA installed over 2,400 new facilities, including the Nation's first Airport Movement Area Safety System (AMASS) at San Francisco International Airport. AMASS, being deployed at 34 high activity airports, commencing in the Spring of 1997, provides tower controllers with active audio and visual alerts on potential runway incursions.

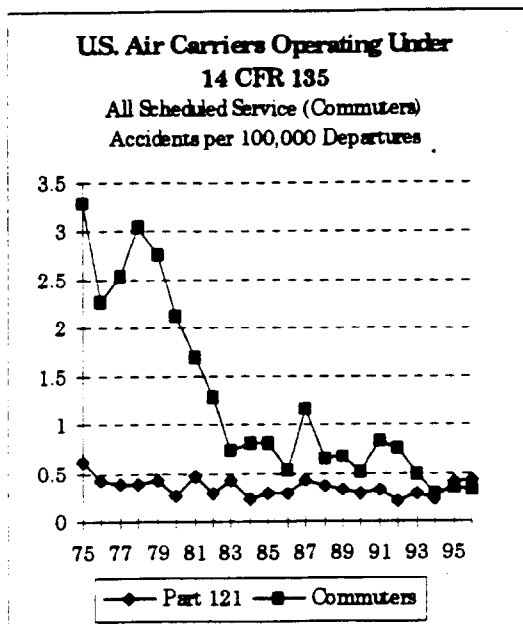
Regulation and Certification

FAA's safety regulatory mission encompasses three primary elements: (1) defining the rules and policies governing the design, manufacture, and operation of U.S. aircraft; (2) certificating and overseeing commercial and cargo aircraft operators, aircraft and avionics manufacturers, maintenance organizations, pilot schools, and general aviation; and (3) monitoring compliance throughout the industry.

The aviation safety regulatory framework, established in cooperation with the aviation community, has helped the U.S. achieve global preeminence not only in safety, but in virtually all aspects of aviation technology.

Safety is never a static concept. It evolves in response to new technology and the changing structure of the industry. One such change has been the rapid expansion of commuter air travel. In December 1995, FAA published a final rule which requires small carriers (10 or more seats) to adhere to the same rigorous safety standards as the large airlines. Transition to the new rule began on March 19, 1996. This regulatory action should further reduce an accident rate for commuter airlines that has fallen sharply since 1978. In 1996, the total accident rate among scheduled commuter airlines fell below that of the large scheduled carriers for the second year.

FAA also moved quickly following the ValuJet crash in the Florida Everglades to tighten its policies governing the oversight of air carriers, particularly those that rely on contract maintenance and training. The new policies followed earlier action to accelerate the hiring of additional inspectors, expand the hazardous materials work force, and ban the transporting of certain hazardous materials on passenger and cargo aircrafts.



Research and Acquisitions

FAA's research and acquisition initiatives are aimed at accelerating the pace of air traffic control (ATC) system modernization, while advancing the frontiers of technology to achieve even higher levels of safety; increasing the capacity and efficiency of the system; protecting the environment; and serving national aviation needs, both now and in coming decades. Critical areas of research and development include aircraft and airport safety, security, hazardous weather, and aviation human factors. For air traffic control, the agency is introducing new technologies such as satellite navigation based on the global positioning system (GPS), data link communications, and a portfolio of automated decision support tools.

Airports

FAA works in partnership with airports, local units of Government, metropolitan planning organizations and States to plan infrastructure improvements for the national airport system. In FY 1996, FAA's airport personnel approved over 941 applications, resulting in the obligation of \$1.45 billion for new grants and increases in prior grants for airport planning and development, including capacity enhancement, noise compatibility planning and implementation projects, and civil aviation development of joint-use and former military airfields. In addition, over 100 passenger facility charge (PFC) applications were processed, approving over \$1.7 billion in PFC collections to fund almost 700 projects. Airport safety and certification inspectors conducted inspections at 380 airports to ensure that they complied with established safety standards.

Civil Aviation Security

The responsibility for aviation security is, by law, a shared one. FAA, in concert with the Nation's security, intelligence, and law enforcement agencies, continuously assesses threats against civil aviation and vulnerabilities at U.S. and international airports. It develops countermeasures for dealing with existing threats and anticipates future ones. Air carriers are responsible for putting these safeguards into practice to protect passengers and personnel.

Departmental Overview

Airports are responsible for maintaining a secure ground environment and providing law enforcement support. The cooperation and vigilance of passengers and shippers is also an integral part of the system.

In late July 1996, FAA increased security levels at U.S. airports with a special focus on international flights. The heightened level included more intensive screening of passengers and carry-on baggage and additional controls on air transport cargo. The White House Commission on Aviation Security, Safety, and ATC Modernization, led by Vice President Gore, examined all FAA's aviation security practices and recommended additional measures to further protect air travelers against terrorists or criminal attacks. The FY 1997 Omnibus Continuing Appropriations Act signed by the President on September 30, 1996, adopted many of the Commission's recommendations. The Act provides funding to: install a significant number of advance bomb detection devices, trace detectors, and upgraded x-ray systems; to expand the use of canine teams to sniff out concealed explosives; to increase security research programs; to conduct airport vulnerability assessments; and to hire more security agents to work with airports, law enforcement, and intelligence agencies.

Administration

FAA strives continually to make its operations more efficient and responsive by employing best business practices, introducing computer-age tools, maintaining a

highly skilled work force, and operating a model workplace. On April 1, 1996, FAA began operating under new acquisition management and personnel practices. The reforms are the result of legislation sought by President Clinton to free FAA from overly restrictive Federal regulations. The new acquisition management system is expected to cut acquisition time in half and reduce costs by 20 percent. The new personnel policies allow the FAA to put the right people in the right jobs more quickly, and has reduced the average time for outside hiring from 7 months to about 6 weeks.

Commercial Space Transportation

In FY 1996, FAA acquired a seventh line of responsibility when the Office of Commercial Space Transportation was transferred from OST. As part of this activity, FAA last year granted licenses for 13 commercial space launches and continued a program to promote the development of voluntary industry and international standards for launch safety. The agency also released a Notice of Proposed Rulemaking to set up a process for determining financial responsibility for the increasing number of commercial space launch operators.

Federal Highway Administration (FHWA)
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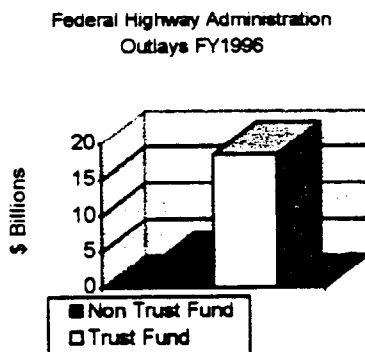
The mission of FHWA is to ensure the highest quality surface transportation system which

promotes the Nation's economic vitality and quality of life of its people.

FHWA provides grants to States to help plan, build, maintain, and manage the Nation's highway system and bridges. It also regulates the interstate trucking industry for safety purposes; performs research and development of highway and trucking related issues; manages the Intelligent Vehicle/Highway System (IVHS) program; and operates the direct Federal highway construction program for Federal lands.

Most FHWA programs and projects are authorized by the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) and receive funds from the Highway Trust Fund (HTF).

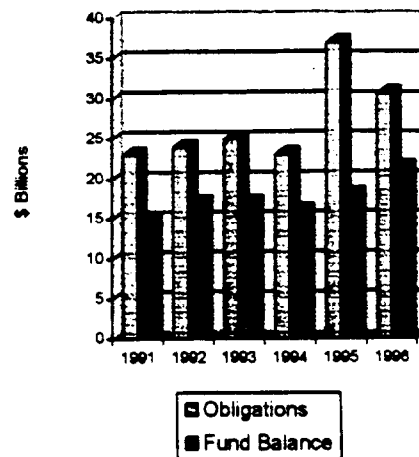
This chart shows the expenditures made by FHWA from funds provided by the HTF and funds provided from other sources outside of the HTF.



As the chart shows, FHWA programs are generally "user pays" programs, supported by the Federal gasoline/diesel tax and taxes on other motor vehicle-related products (e.g., tires, trucks, trailers), and truck

use taxes. The money collected, roughly \$21.7 billion from gasoline and diesel taxes and \$2.9 billion in other taxes in FY 1996, is deposited into the HTF and dedicated to financing FHWA programs. About 10 percent of the revenue is dedicated to Federal transit programs. Obligations totaled \$30.7 billion at the end of FY 1996. The cash balance in the HTF is currently about \$21.4 billion.

Trust Fund Balances vs Trust Fund Obligations



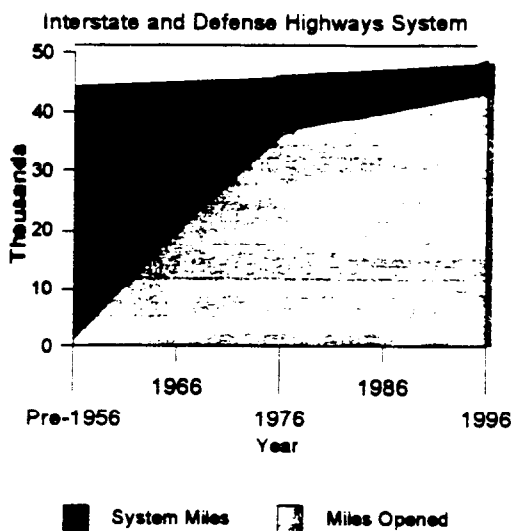
Major Programs

Federal-Aid Highway (FAH) Program

The FAH program is the principal program for distributing Federal funds to the States to build and rehabilitate major highways and bridges. The States are reimbursed for eligible work after the work is performed. Federal-aid funding accounts for 99 percent of FHWA's budget authority.

Departmental Overview

This program provides for construction and preservation of the approximately 42,800 mile National System of Interstate and Defense Highways, generally financed on a 90 percent Federal, 10 percent State basis. It also provides for the improvement of approximately 800,000 miles of other Federal-aid primary, secondary, and urban roads and streets, with financing generally on a 75 percent Federal to 25 percent State basis.



The FAH program also funds relocation assistance to those displaced by highway construction; improving access for the handicapped; encouraging the joint use and development of highway corridors; acquiring real property for right-of-way; encouraging disadvantaged business enterprises to participate in highway construction; and preserving public parks and recreation lands, wildlife and waterfowl refuges, historic sites, and the natural beauty of the countryside along highways.

Funding is specified by category in the highway authorization Acts. The major programmatic categories are:

- National Highway System (NHS) funds construction or reconstruction on about 155,000 miles of the principal highways in the Nation.

The NHS was created by an Act of Congress in FY 1996. The 155,000 miles were designated in consultation with the States. In FY 1996, total obligations incurred by States for Federal-aid was \$16.7 billion and the apportionment of Federal-aid amounted to \$15.6 billion.

- Surface Transportation Program (STP) funds a flexible, block grant type program that allows use of highway funds for a wide range of activities, including transit, safety and transportation enhancements which encompass numerous environmentally related activities, and bicycle-pedestrian accommodations.
- Interstate Construction (IC) funds completion of the Interstate Highway System. Currently, 40 States have opened all designated Interstate mileage to traffic. Nationwide, 42,775 miles or 99.9 percent of the 42,795 mile system is open to traffic.
- Interstate Maintenance funds rehabilitating, resurfacing, restoring and reconstructing older segments of the Interstate Highway.

Departmental Overview

- *Congestion Mitigation and Air Quality Improvement Act (CMAQ)* funds environmental mitigation measures in the Clean Air Act non-attainment areas and STP activities in other areas. It is intended to reduce congestion and improve air quality. Since 1992, the initial year authorized, to 1996, obligations have grown from \$340 million to over \$939 million annually. The CMAQ program offers States flexibility to fund a wide range of projects—the largest share thus far is funding transit projects (46.8 percent), followed by traffic flow (30.9 percent).
- *Bridge Replacement and Rehabilitation (BRR)* funds

construction or repair on any bridge. The bridge inventory system has disclosed that for FY 1996 of all the bridges inventoried which are not on the Federal-aid System, 24.5 percent are structurally deficient and 12 percent obsolete; on the National Highway System, 7.8 percent are structurally deficient and 18.2 percent are obsolete; and on all other Federal-aid systems, 13.2 percent are structurally deficient and 14.1 percent are obsolete.

To ensure that the percent of structurally deficient and obsolete bridges grows no larger, it is estimated that \$5.2 billion of maintenance would be required each year for the next 15 years.

Status of National Bridge Inventory

Bridge Status	National Highway System			Other Federal-Aid Highways			Non Federal-Aid Highways		
	FY 1996	FY 1995	FY 1994	FY 1996	FY 1995	FY 1994	FY 1996	FY 1995	FY 1994
Bridges in Inventory	127,736	127,263	126,911	170,956	168,593	170,178	283,170	285,278	279,371
Structurally Deficient: Number of Bridges	9,960	9,755	9,947	22,597	22,450	24,147	69,231	72,112	73,589
Percent of Total	7.8	7.7	7.8	13.2	13.3	14.2	24.5	25.3	26.3
Functionally Obsolete: Number of Bridges	23,230	22,943	22,716	24,025	23,536	23,043	33,953	34,471	34,073
Percent of Total	18.2	18.0	17.9	14.1	14.0	13.5	12.0	12.1	12.2

Departmental Overview

These six categories account for about 75 percent (\$91.2 billion) of the \$120.8 billion for highways authorized by ISTEA for 1992 through 1997. Much of the remainder of the authorized funding is for special interest projects (\$6.2 billion), special State allocations to balance the money flowing into and out of the HTF from each of the States (\$12.2 billion), and for several other miscellaneous categories.

Federal Lands Highway Program (FLHP)

The FLHP provides HTF financing of the construction and improvement of Indian reservation roads, parkways and park roads, and public lands highways, including forest highways and discretionary public land highway funding. FHWA provides the direct Federal resources to manage this program in conjunction with the Departments of Interior and Agriculture.

This program also provides direct construction management experience for persons in the FHWA engineering training program. In total, about \$2.6 billion was provided in ISTEA for this program, about \$433 million per year.

In general, projects to be funded each year are selected by the Federal agency with jurisdiction over the Federal lands involved (i.e., the National Park Service with respect to parkways and park roads, the Forest Service for forest highways, and the Bureau of Indian Affairs for Indian reservation roads).

FLHP ROADS	TOTAL MILEAGE	PAVED MILEAGE	GOOD 55%*	FAIR 35%	POOR 15%*
Forest Highways	29,600	22,000	20	60	20
Indian Reservation Roads	25,000	5,000	34	37	29
Park Roads & Parkway	8,000	5,000	38	22	40

Intelligent Transportation Systems (ITS) Program

The ITS program is designed to research, develop, and operationally test advanced vehicle and highway systems; develop an automated highway system; and promote such technology as a means to increase the efficiency of the Nation's highways.

The program funds States, local governments, and private entities to develop and test new technologies, processes, procedures, and other activities that have the potential to enhance the efficiency of transportation infrastructure (e.g., increase the capacity of an existing highway by increasing the average speed), or improve operations of the vehicle using the infrastructure. ISTEA provided about \$660 million in contract authority for 1992 through 1997 (\$98.8 million in 1996). Additional funds are provided from a draw down against the Federal-aid highway program (\$12.5 in 1996). Of the funds authorized in ISTEA, about three quarters, \$75.2 in 1996, must be used on specific corridors.

Motor Carrier Safety Assistance Program (MCSAP)

The MCSAP is designed to improve safety of trucks and buses on the Nation's highways, and consistent with this goal, to reduce the number of

accidents involving trucks. This is done through a combination of regulations on both the vehicle and driver, enforcement of such regulations, and grants to States for enforcement.

- Regulations cover the full gamut of vehicle-related (e.g., truck size and weight, vehicle systems—such as brakes, maintenance activities, etc.) and driver-related (e.g., hours of service, physical condition, drugs and alcohol, training, etc.) functions.
- Enforcement is performed with a combination of Federal and State personnel, including 300 Federal investigators. State enforcement is carried out by a range of State associated enforcement organizations, including State police, highway patrol, public service commissions, and public utility commissions—about 4,000 people.

**FY 1995
Commercial Vehicle Safety Inspections**

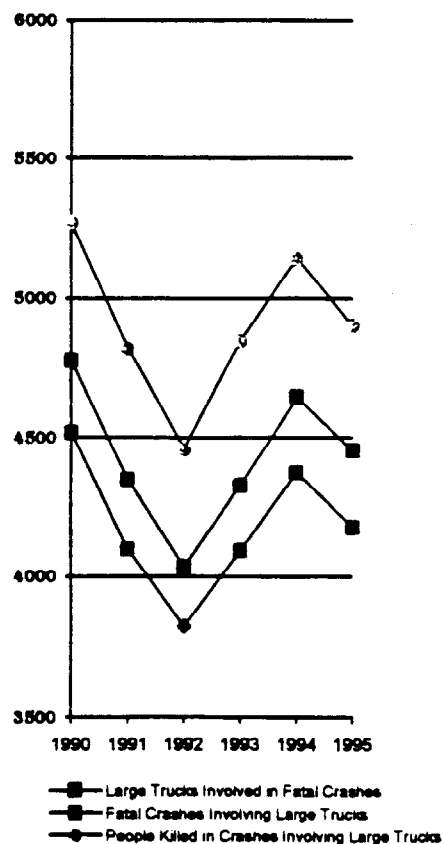
	#Roadside Inspections	# Placed Out-of-Service	Out-of-Service Ratio
All Vehicles	1,840,266	417,470	.227
Non-Hazmat Vehicles	1,650,992	386,249	.234
Hazmat Vehicles	152,784	27,369	.179
Commercial Buses	36,490	3,852	.106
Drivers	1,840,266	146,202	.079

The MCSAP funds State enforcement of Federal truck and bus safety requirements or compatible State requirements. States may also use MCSAP funds for anti-drug and size and weight enforcement. Funding to the States

entails both earmarked and apportioned (formula) contract authority authorizations (\$85 million authorized and \$76.8 million obligated for 1996).

Nearly 2 million different commercial motor vehicles have been inspected for safety. These safety inspections resulted in over 22 percent being taken out of service and over 146,000 drivers being placed out of service.

The graph indicates the number of large trucks involved in fatal crashes and the number of people killed in crashes involving large trucks in the years 1990 through 1995. At the time of this writing crash figures for 1996 were not available.

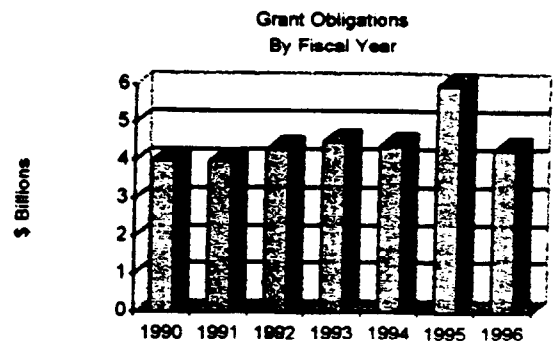


Federal Transit Administration (FTA)

The mission of FTA is to ensure personal mobility and America's economic and community vitality by supporting high-quality public transportation through leadership, technical assistance and financial resources. Transit investment improves the quality of life for over 80 million Americans who live in transit-intensive urbanized areas and the 30 million rural Americans who depend on transit for basic mobility. Ten million people rely on transit every day to get to jobs, schools, stores, and health care facilities. Another 25 million use transit less frequently, but on a regular basis. In many cases, the elderly, the disabled, and the economically disadvantaged are the ones who most rely on transit for their basic mobility. The welfare and vitality of urban and rural areas is fostered and improved through effective transportation facilities and services, traffic congestion management, and the coordination of transportation and related regional planning.

The use of Federal dollars for transit is an economically wise investment in our Nation's infrastructure. These investments also support the national goal of reducing traffic congestion and improving air quality.

The chart illustrates the national support for transit infrastructure investment.



The Federal Transit Program is funded from the general fund of the Treasury (i.e., general tax receipts) and the Mass Transit Account of the HTF. About 10 percent of the total motor fuels revenue, \$2.6 billion, was deposited in the Mass Transit Account in FY 1996 and dedicated to funding the Federal transit programs. The cash balance in the Mass Transit Account is currently about \$9.5 billion. Commitments against this balance are \$4.7 billion, leaving an uncommitted cash balance of \$4.8 billion. In FY 1996, 69 percent of the Federal transit program was funded from the HTF.

Major Programs

Discretionary and Formula Grants

FTA programs are primarily in the form of grants, totaling about \$4.1 billion in FY 1996. Grants are distributed either by statutory formulas set out in the ISTEA, or by discretionary grants which are usually earmarked in the appropriation and authorization process. Formula grants are apportioned by statutory formula

based on population, population density and transit operational data.

Through a variety of grant assistance programs, FTA provides funding to over 500 public transit operators in 316 urbanized areas, 1,200 transit systems serving rural areas, and 3,700 agencies that provide transit service to elderly and disabled persons. FTA also provides assistance for local transit authorities and State and local transit administrations to plan, construct, and operate the Nation's mass transit systems.

The following are some of the major program initiatives funded in FY 1996 by FTA formula and discretionary grants.

- Full Funding Grant Agreements (FFGAs) were awarded by FTA to fund new fixed guideway construction projects, including an additional three FFGAs valued at over \$1.8 billion for New Starts. These projects include an aggregate local commitment of \$1.08 billion and an overmatch of \$610 million, indicating a strong, long-term local commitment to the provision of high-quality public transit service. Since January 1993, FTA has signed FFGAs for 17 projects totaling \$6.2 billion. When State and local funds are also considered, these projects will result in the investment of over \$11 billion in new mass transit infrastructure.
- Flexible Funding provisions of ISTEA provide State and local transportation planners and decisionmakers with the flexibility to

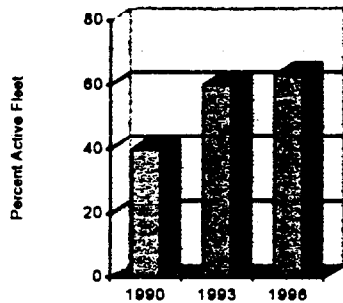
fund transportation projects which best meet locally determined goals for mobility, economic opportunity, and air quality. Since FY 1992, State and local officials have elected to use over \$2.7 billion for transit investment to improve the safety, security, reliability, convenience and speed of transit services. Annual obligations have grown from \$243 million in FY 1992 to \$687 million in FY 1996.

- Livable Communities Initiative demonstrates ways to improve the link between transit and communities. This initiative promotes the development of customer-friendly, community-oriented, and well-designed transit facilities and services. To date, 5 planning grants and 16 separate capital demonstration grants totaling over \$37 million have been awarded for projects that demonstrate the characteristics of community-sensitive transit. In addition, concepts embodied in the Livable Communities effort have been incorporated into the planning process that is part of all new starts projects.

Americans With Disabilities Act (ADA) Implementation has a goal of providing full ADA bus accessibility by the year 2005. The chart shows that FTA estimates that 63 percent of the active fleet of the national fixed-route bus system is now lift-equipped, putting FTA on target in meeting this goal. Regarding the implementation of the paratransit provisions of ADA, FTA conducted 14 training sessions and reviewed

530 paratransit plan updates, over 80 percent of which reported full implementation. For rail systems, a nationwide survey of ADA key stations has enabled FTA to provide guidance and identify remedial measures, including voluntary compliance agreements where required.

ADA: Lift-Equipment Bus Fleet
Standard-Size Fixed-Route Buses in Active Service



- Atlanta Centennial Olympic Games and Paralympic Games were furnished with over 1,800 buses during the 1996 Olympics due to FTA's cooperative efforts in working with the Atlanta Committee for the Olympic Games (ACOG). Approximately 1,500 buses were loaned from over 70 transit agencies across the country, and the remainder came from private sources. FTA worked jointly with FHWA to implement the Automated Vehicle Locator (AVL) system at the Olympic Games. It was installed on 239 buses and assisted transit dispatchers in maintaining bus schedules on selected routes. AVL is a component of the Advanced Public Transportation System/Intelligent Transportation System (APTS/ITS) program. The Metropolitan Area Rapid Transit

Authority (MARTA) carried over 17.8 million passengers during the 17-day period of the Olympic Games. This broke all previous MARTA ridership records. FTA also worked with the natural gas industry and the Electric Transit Vehicle Institute to showcase compressed natural gas buses and electric battery powered buses. Following the Olympics, 212 buses remained in Atlanta to provide transportation for the Paralympic Games.

Innovative Financing

During FY 1996, FTA continued its emphasis on developing innovative concepts to help improve transit infrastructure. FTA assisted the Department in implementing the State Infrastructure Bank (SIB) pilot program authorized by the National Highway System Designation Act of 1995. Of the ten States that were approved to establish a SIB, nine proposed establishing both Transit and Highway accounts (Arizona, California, Florida, Missouri, Ohio, Oregon, South Carolina, Texas, and Virginia).

Electronic Grant Making and Management (EGM&M)

Under this effort, a fully automated system has been developed that will allow all routine business with FTA to be conducted electronically, from the earliest submission of a grant application to the disbursement of funds. The performance of post-award audits and reviews will also be done electronically. During FY 1996, 36 grantees executed 97 grant

awards totaling \$1.7 billion, and 478 grantees filed 3,889 financial status reports using the EGM&M system.

National Highway Traffic Safety Administration (NHTSA)

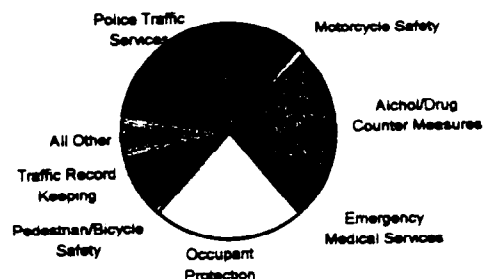
The mission of NHTSA is to improve the safety of motor vehicle travel. NHTSA pursues this mission by conducting safety research leading to regulations, enforcement, program development, grants, and technical assistance to States. Due in some degree to NHTSA's efforts, motor vehicle travel continues to become safer. Traffic fatalities have decreased from 51,091 in 1980 to 44,529 in 1990 to 41,798 in 1995. The fatality rate per 100 million vehicle miles has fallen from 3.3 in 1980 to 2.1 in 1990 to 1.7 in 1995.

A NHTSA analysis of the Department's highway safety programs showed that society receives a return of \$9 for each dollar spent on highway safety. Programs administered by NHTSA are funded from the HTF. Funds are made available to the States, territories, and District of Columbia using a statutory formula. Based upon an approved highway safety plan, the grantees qualify for their portion of the highway safety and alcohol incentive grant appropriation. These plans primarily support eight national priority areas. NHTSA administers seven of these priorities and FHWA the other.

The priority areas are: 1) Alcohol/Drug Counter Measures, 2) Police Traffic Services, 3) Traffic Record Keeping,

4) Occupant Protection, 5) Emergency Medical Services, 6) Motorcycle Safety, 7) Pedestrian-Bicycle Safety, and 8) FHWA's Roadway Safety. Subject to approval by the Secretary, grantees may also allocate their grants to other highway safety problems, dependent on well-documented problem identification. Such problem areas include speed limit enforcement and school bus safety. The operations and research appropriation, partially funded by the HTF, primarily pays for highway safety research and public awareness programs.

FY 1995 Obligations by Priority Areas
(Total \$122,669,890)



Major Programs

Traffic Safety Program

The traffic safety programs promoted by NHTSA are developed and/or evaluated at headquarters. The regional offices then work with the States to implement these programs, usually utilizing Federal grants to get the programs started.



- Occupant Protection Programs encourage stricter State laws and utilize the media and other outreach to increase the use of safety belts, motorcycle helmets, and child safety seats. One example is the "Vince and Larry Crash Dummies" ad campaign designed to encourage seat belt use. National safety belt usage is currently 68 percent.

NHTSA established several Development Parameter programs for youth target groups to increase safety belt usage and combat negative peer pressure. Programs were also established to work with the police agencies, conduct surveys, and develop strategies to reach rural young male drivers of pick-up trucks.

- Impaired Drivers Programs encourage stricter laws and enforcement and better training and outreach to reduce driving that is impaired by drug and alcohol use. Currently 41 percent of all accidents are alcohol related. One example is the Drug Evaluation and Classification program, which trains

police officers to recognize the use of various drugs.

- Other Safety Programs seek to enforce speed limits, improve emergency medical services, and focus attention on pedestrians, bicyclists and older and younger drivers.

In an attempt to increase safety, speed-related enforcement strategies and techniques were developed. In addition, countermeasures and programs were developed that identified specific target groups and crash types involving pedestrians and bicyclists.

Rulemaking

- Safety standards regulate new vehicles and equipment by issuing Federal Motor Vehicle Safety Standards (FMVSS). NHTSA regulates equipment such as child seats and wheelchair restraint systems and vehicles such as passenger cars, school buses, light trucks, heavy trucks and safety equipment on new vehicles.
- Market Incentives Programs (New Car Assessment) test a car's compliance with crash standards at 35 mph (the standards require tests at 30 mph). This seemingly small increase in speed can provide large differences in test results. NHTSA publicizes these results so consumers will have additional safety information to use in buying cars and to encourage manufacturers to produce safer

cars. NHTSA tested 39 cars this year for frontal impact. Of the current models, 63 have been tested, representing 80 percent of the total number of cars sold.

- Fuel Economy Programs set the Corporate Average Fuel Economy (CAFE) levels for new passenger cars and light trucks. The CAFE levels are set in a final rule released at least 18 months prior to the start of the affected model year. The CAFE level for passenger car fleets is 27.5 mpg. The CAFE level for light trucks is 20.7 mpg.

In the DOT Appropriations Acts for both FY 1996 and 1997, Congress specified that CAFE standards not be set at levels higher than any previous standards. This requirement affects model years 1998 and 1999 productions.

- Other Programs report statistics on motor vehicle theft and other insurance related data. NHTSA also sets standards for bumpers, more to prevent damage to the car than injury to the occupant. A report mandated by statute on the motor vehicle theft program was prepared in early FY 1996. NHTSA also initiated a Motor Vehicle Title Information System.

Enforcement of Standards

- Compliance enforces the safety standards issued through rulemakings. Manufacturers must self certify that their vehicles meet the appropriate standard tests. NHTSA spot checks them, focusing

on specific complaints or new technologies and designs. NHTSA also ensures that imported vehicles either conform to U.S. FMVSS or qualify for the appropriate exemptions.

Since the inception of the National Traffic and Motor Vehicle Safety Act, in January 1996, through September 1996, 3,363 investigations for possible non-compliance were initiated, of which 3,330 have been completed and closed. In addition, from September 1966 through December 1995, civil penalties collected for Safety Act violations totaled \$3.95 million.

- Defects, Investigations and Recalls examine potentially unsafe vehicles and equipment currently in use. NHTSA evaluates information received through its toll-free Auto Safety Hotline and consumer letters to see if a recall is warranted. On rare occasions, an investigation is spurred by a formal petition (as in the GM pickup case). In 1995, there were 810 recall campaigns, 26 involving safety belts and 2 involving child safety seats. A total of 111.5 million vehicles were affected from September 1966 through December 1995. These recalls are almost always voluntary, the result of a NHTSA request.

- Odometer and Titling Fraud Programs enforce Federal laws and provide funds to States/localities to help them reduce odometer fraud. Federal investigations have led to

193 criminal convictions from July 1978 through December 1995.

NHTSA grant funds can be used for consumer education, investigations involving State laws, and studies or workshops on State titling procedures. Since the inception of this program, 1057 investigations involving 9,882 vehicles were completed. There were 310 cases referred to the U.S. Department of Justice for prosecution, 216 cases referred to NHTSA Chief Counsel for civil penalties, and 196 cases referred to State enforcement agencies for legal action, resulting in fines totaling \$2.79 million.

Research and Development

The three main areas of research are crash avoidance, crashworthiness, and data analysis. The first area tries to keep an accident from happening through such measures as hazard detection and vehicle control; the second area tries to limit the damages once an accident occurs through such measures as improved restraint systems and vehicle structure; and the third area helps to determine where traffic safety problems exist. This research supports all of NHTSA's other programs.

Federal Railroad Administration (FRA)

FRA was created in 1966, to promote and enforce safety throughout the U.S. railroad system, rehabilitate the Northeast Corridor rail passenger services, consolidate Federal support for rail transportation, and support research

and development for rail transportation. FRA works with other elements of DOT on the timely and effective implementation of the ISTEA.

The primary responsibility of FRA is to protect railroad employees and the public by ensuring the safe operation of freight railroads, the National Railroad Passenger Corporation (Amtrak), and commuter railroads.



In 1996 there were 11 Class I railroads and approximately 612 smaller, independent, freight or other types of railroads, plus commuter operations in metropolitan markets. Freight railroads own and operate almost 175,500 miles of track, including mileage used for intercity and commuter rail passenger service. In addition, Amtrak owns and operates much of the railroad in the 450-mile corridor between Boston and Washington, D.C. and some rail lines in Michigan.

FRA pursues its safety programs through vigorous public outreach that make more people aware of the danger of highway/rail crossings and trespassing on railroad rights-of-way. Saving lives through improved safety is an important goal. FRA is poised to

support the U.S. in the next century by advancing technology so that transportation is safer, faster, more efficient, environmentally sound, and reliable.

Major Programs

Railroad Safety Program

The Railroad Safety Program protects railroad employees and the public by ensuring the safe operation of passenger and freight trains.

The program funds the enforcement of Federal safety regulations and standards; the Automated Track Inspection Program; and the Safety Regulation and Program Administration.

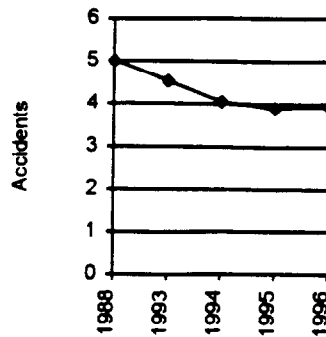
FRA's safety program includes 357 field safety inspectors and trainees organized by five discipline areas — motive power and equipment, operating practices, track, signal and train control, and hazardous materials.

To accomplish its safety mission and support the Department's safety goals and objectives, FRA has established an initiative to reduce annual rail-related fatalities by 10 percent of the 1993 level, to 1151, by 1998. Annual rail-related fatalities in 1988 were 1,199. From 1989 through 1993, rail related fatalities rose 7 percent over 1988 levels. Annual rail-related fatalities in 1993 were 1,279. In 1996 they were 1,049—better than the 1998 goal.

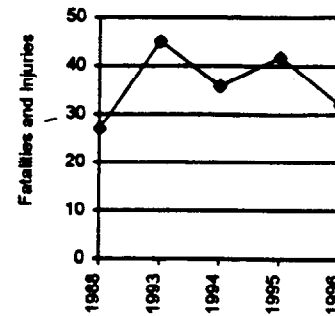
Departmental Overview

The effectiveness of this initiative is measured by reductions in:

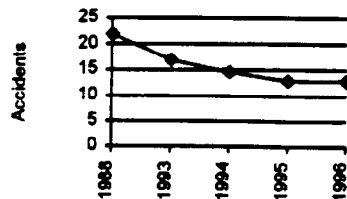
Train Accidents
Per million train-miles



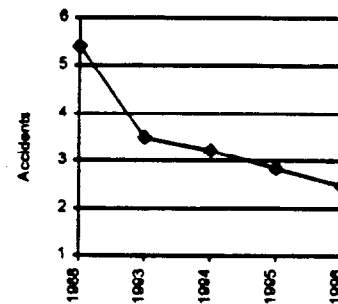
Fatality and Injury Rate for Railroad Passengers
Per billion passenger miles



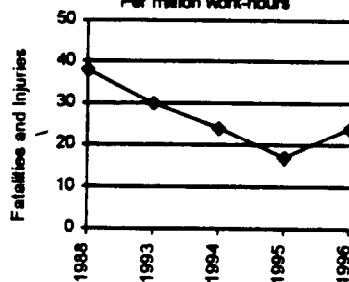
Rail Cars Release of Hazardous Materials
Per billion hazardous materials train-miles



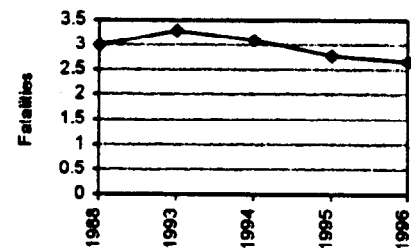
Highway-Rail Grade Crossing Accidents
Per train-miles annual highway vehicle miles of travel



Railroad Employee Fatality and Injury Rate
Per million work-hours



Trespasser Fatalities
Per million train-miles times U.S. population



Financial Assistance to Railroads

FRA financial assistance to railroads principally involves grants to Amtrak for operating expenses, capital projects, and infrastructure improvements on the rail corridor between Boston and Washington.

- Grants to the National Railroad Passenger Corporation (Amtrak) Program move Amtrak toward financial stability and very high-quality passenger services. Amtrak was established in 1970 through the Rail Passenger Service Act and is operated and managed by members appointed by the Executive Branch of the Federal Government. This program funds part of the ongoing operations of Amtrak, Amtrak's capital requirements, and costs associated with long-term restructuring of the Corporation. Over the last 10 years, Amtrak's total capital assistance, including the Northeast Corridor Improvement Project, has ranged from a low of \$48 million in FY 1989 to a high of \$330 million in FY 1996. Amtrak operating assistance has ranged from a low of \$305 million in FY 1996 to a high of \$582 million in FY 1987.

Amtrak's FY 1996 Performance

Measurements	1996 Goals	1996 Actual
On-time performance	78.1%	70.9%
Customer Satisfaction	82.8%	82.0%
Injury Levels (persons)	1,221	1,305
Passenger-miles (billion)	5 406	5 050
Passenger Revenues (million)	\$935	\$901
Total Revenues (million)	\$1,531	\$1,491
Cash Operating Loss (million)	\$ 0	\$82.2

- Northeast Corridor (NEC) Improvement Program began as a \$2 billion program to upgrade Amtrak's main line between Washington, D.C. and Boston. Construction projects included track improvements, upgraded and new power and control systems, fencing and grade crossing elimination, and improvement of service facilities and stations. Construction reached its peak in 1980 and 1981.

FRA's current goal is to complete the NEC Improvement Project by the year 2000 and ensure that it matches world standards. FRA will monitor Amtrak's progress in implementing improvements to the north end of the NEC. FRA tracked Amtrak's completion of the following performance measures for FY 1996 work season:

FY 1996 Northeast Corridor Performance
<ul style="list-style-type: none"> - 47,500 concrete ties installed - 6 miles of rail relaid/welded - Completed undercutting of track to gain clearance at 9 of the 13 locations - Completed open deck bridge repairs on 2 of the 4 bridges - Completed 245 foundations, 265 are still under construction

Research and Development Programs

FRA operates in-house research activities in support of railroad safety and policy development. FRA provides science and technology support for rail safety rulemaking and enforcement to stimulate advances in rail technology, and to identify and assess safety implications of new technologies. Major projects include:

- Cost-sharing research with freight railroads on equipment, operating practices and tracks—FRA's research supports the development and refinement of safety regulations.
- Cost-sharing technological research with industry to explore advancements in such areas as grade crossing signal systems.
- Research necessary for safety regulation of the design, construction and operation of high-speed rail systems.

United States Coast Guard (USCG)

USCG's four main missions are Maritime Safety, Maritime Law Enforcement, Marine Environmental Protection and National Security. These missions are accomplished through several programs which are funded through a variety of appropriations and revolving accounts.

USCG is the primary Federal agency with maritime authority for the U.S. It is a complex organization of people, ships, aircraft, boats and shore facilities. It saves life and property at sea, protects the marine environment, enforces Federal laws and treaties, and conducts military operations. The Service's multi-mission approach permits a relatively small organization to respond to public needs in a wide variety of maritime activities and to shift emphasis on short notice when the need arises.

People, Aircraft, Vessels & Facilities - 1996	
5,600	Civilian employees
36,730	Active duty military employees
233	Ships 65' and over
1400	Small boats under 65'
218	Aircraft—fixed wing & helicopters
300	Buildings with a total of 28 million square feet of space
7,700	Reserve military employees

Major Programs

Search and Rescue Program



Through this program, USCG provides assistance to people or property in distress or in danger on the water. To accomplish this program, USCG employs vessels and aircraft to conduct searches and provide on-scene assistance. USCG has a policy of employing commercial search and rescue services, if available, where neither life nor property is in immediate danger. The USCG Auxiliary is an active, civilian, and volunteer organization that was established in 1939. The approximately 35,000 members are experienced boaters, and amateur or licensed pilots using their own assets. The USCG Auxiliary is a cost-effective supplement to the search and rescue and boating safety missions.

Aids to Navigation Program

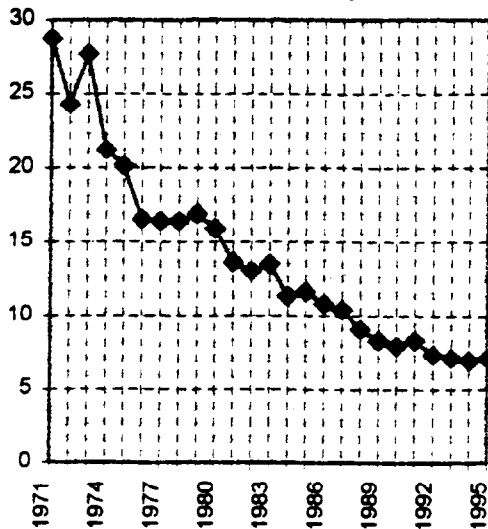
USCG operates and maintains 50,000 Aids to Navigation. These aids consist of both short range and long

range aids. Short range Aids to Navigation such as buoys, signals and lights (including lighthouses) are established and maintained by a fleet of 37 seagoing and coastal buoy tenders. This fleet will be reduced to 30 during the next few years as a new generation of buoy tenders become operational. The long range radio-navigation transmitters include Loran, Omega, and the Differential Global Positioning System. With the introduction of the Global Positioning System, all Loran stations will be phased out by the year 2000.

Recreational Boating Safety (RBS) Program

The RBS program is designed to minimize fatalities, injuries and property damage among the Nation's recreational boaters. The program is authorized under current law, to receive up to \$70 million per year of Federal gasoline taxes attributable to motor boat use. Half of the amount is authorized to offset a portion of the USCG's operating expenses for RBS services to the public. (There are over 20 million recreational boats in the U.S.). The remaining half is authorized for grants to assist participating States in developing and carrying out State RBS programs. Under provisions of the Clean Vessel Act of 1992, the amount available for State RBS grants through appropriation from the Boat Safety Account is supplemented by a transfer of funds from the Secretary of the Interior to the Secretary of Transportation.

Fatalities Per 100,000 Numbered Boats



The fatality rate for recreational boating has dropped from 28.7 per 100,000 estimated numbered boats when the program was created by the Federal Boat Safety Act of 1971 to 7.1 per 100,000 boats in 1995. The number of fatalities reported to the USCG in 1995 increased to 836 from the all-time low of 784 in 1994 (6.9 fatalities per 100,000 numbered boats).

Marine Safety Program

The Marine Safety program includes the merchant vessel licensing, inspections and review of plans for new ship construction. The goal is to minimize deaths, injuries, property loss and environmental damage by developing safety standards for the design, construction, maintenance, and operation of U.S. commercial ships and offshore facilities such as

oil drill rigs. To accomplish this, USCG conducts annual safety inspections of these vessels and facilities. USCG also issues Certificates of Documentation (similar to car registrations) for these vessels and facilities.

Various laws, including the Omnibus Budget Reconciliation Act of 1990, authorized USCG to charge user fees for various marine safety activities such as the inspection of vessels. USCG collected approximately \$30 million in FY 1996. This amount represented the total cost to the USCG for conducting these services.

The amount of user fees collected over the last 6 years was approximately \$115 million.

Marine Environmental Protection Program

The goal of this program is to minimize damage from potential spills of oil and hazardous materials. As one of the program's responsibilities, USCG administers the Oil Spill Liability Trust Fund (OSLTF). This Fund, created by the Oil Pollution Act of 1990 (OPA) is financed by a 5 cents per barrel oil tax. From 1990 to 1994, this tax was the primary income for the OSLTF. The tax expired in December 1994; however, a proposal to resume the tax has been introduced as part of the President's FY 1998 budget and is now being considered by Congress.

Since OPA specifies that the responsibility for cleaning up oil spills lies with the spiller, the Act makes available \$50 million annually for emergency response to oil spills until the spiller has had time to organize his own clean-up efforts. Also, approximately \$30 million dollars were transferred from this fund to marine safety operations for preventive actions. In addition, these funds are available for cleaning up oil spills if the spiller cannot be identified, and for payment of claims for losses attributable to the spill.

USCG also oversees the development and approval of industry plans for the cleanup of oil spills, as required by the OPA. It represents DOT in the development of a multi-agency National Contingency Plan for responding to oil spills.

As of the end of FY 1996, USCG managed over 1000 active cases, including many begun in prior years. FY 1996 commitments for removal efforts for these cases totaled \$47 million. Another \$2 million was spent to adjudicate and pay claims. A major responsibility of USCG is the enforcement of the International Convention for the Prevention of Pollution from ships, known as MARPOL. Included in this enforcement mandate is oil pollution, noxious liquids pollution, and plastic garbage pollution.

Enforcement of Laws and Treaties Program

USCG enforces all Federal laws on the high seas subject to U.S.

jurisdiction and on U.S. flag vessels anywhere in the world. USCG vessels and aircraft interdict drug smugglers and illegal immigrants and enforce U.S. fisheries regulations. USCG works with other Federal departments and agencies, including the Departments of Commerce, Justice, Treasury and Defense in carrying out this program. Of particular interest are three bases in the Caribbean which USCG operates with the Drug Enforcement Agency (DEA) and the Bahamian Government. These bases, jointly known as Operation Bahamas, Turks and Caicos (OPBAT), are manned by USCG personnel. The OPBAT mission is to capture and arrest drug smugglers.

Defense Readiness Program

USCG is one of the nation's five armed forces. Unlike the other military services, USCG does not concentrate primarily on the role of national defense. Drawing upon its other three roles, USCG provides unique capabilities for national defense that do not duplicate the other armed forces.

USCG must have operating units with the combat capability necessary to function as an armed naval force. By statute, USCG may become part of the Department of the Navy upon the declaration of war by the Congress. In FY 1996, USCG received approximately \$300 million from the Department of Defense budget for this mission. Activities include joint exercises with the Navy, port security, and training and assisting the Navy

Departmental Overview

with overseas deployments such as the Gulf War.

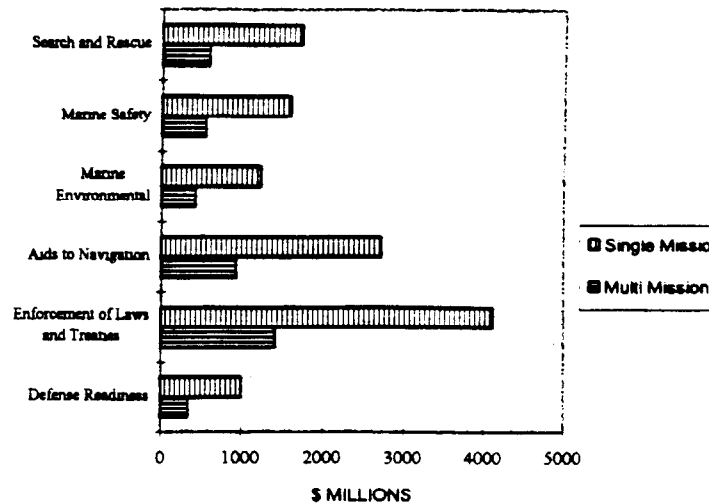
USCG also operates large Polar icebreakers to support the National Science Foundation and the Department of Defense icebreaking requirements in the Arctic and Antarctic. USCG also maintains a fleet of smaller icebreaking-capable vessels on the coasts and Great Lakes to facilitate commerce in these areas.

FY 1996 Performance Measures

The FY 1996 performance measure for the USCG is the taxpayer's return on investment (ROI). One vessel can support multiple missions such as Marine Environmental Protection, Enforcement of Laws and Treaties and maintaining Aids to Navigation while on patrol. This flexibility has the advantage of "leveraging" the taxpayer's dollars.

In FY 1996, USCG returned more to the taxpayer in services than was appropriated. The "ROI" for 1996 was 2.91/1. In other words, USCG returned \$2.91 in services for every taxpayer dollar spent.

SAVINGS ACHIEVED BY MULTI MISSION USE OF ASSETS
FY 1996



Maritime Administration (MARAD)

The mission of MARAD is to promote the development and maintenance of an adequate and well-balanced U.S. Merchant Marine, sufficient to carry the Nation's domestic waterborne commerce and a substantial portion of waterborne import and export commerce, and to be capable of serving as a naval and military auxiliary in time of war or national emergency.



In FY 1996, MARAD employed a nationwide work force of 1,023 and administered programs authorized by

the Merchant Marine Act of 1936, as amended, and related Acts, to promote a strong U.S. Merchant Marine. MARAD funds provide operating aid to U.S. flag ship operators; administers the Federal Ship Financing Funds loan portfolio; monitors the cargo preference laws of the U.S; reimburses the Commodity Credit Corporation for the expanded cargo preference requirement in the Food Security Act of 1985; preserves and maintains merchant ships retained in the National Defense Reserve Fleet including the Ready Reserve Force; undertakes emergency planning and coordination; promotes port and intermodal development; and conducts Federal technology assessment projects.

Major Programs

Maritime Security Program (MSP)

The MSP provides resources to maintain a U.S. flag merchant fleet crewed by U.S. citizens to serve both the commercial and national security needs of the U.S. The program directly pays U.S. flag ship operators engaged in U.S. foreign trade. Participating operators are required to keep the vessels in active commercial service and to provide intermodal sealift support to the Department of Defense in time of war or national emergency.

The MSP was first funded for FY 1996 with an appropriation of \$46 million--which could not be obligated until authorizing legislation, the Maritime Security Act of 1996, was enacted on October 8, 1996. MARAD has awarded contracts for 47 MSP ships to 10 companies.

National Defense Reserve Fleet (NDRF) and Ready Reserve Force (RRF) Programs

The NDRF is an inactive reserve fleet of 219 ships, which can be activated to meet shipping requirements during national emergencies. NDRF ships are preserved and maintained by MARAD. MARAD spends about \$279 million annually to maintain NDRF, which is valued at \$1.9 billion. The NDRF ships are primarily cargo ships, tankers, and a few other types.

The RRF was established in 1976, as a subset of NDRF. Of the 219 ships currently in the NDRF, 93 are RRF ships. The goal is to increase the RRF to 96 ships by FY 1999.

RRF ships are upgraded and maintained to be fully operational and tendered to the Military Sealift Command within 4 to 20 days after notification. The RRF is structured for quick-response ship availability to transport Army and Marine Corps unit equipment and initial resupply for forces deploying anywhere in the world during the critical initial period before adequate numbers of Navy-controlled or commercial ships can be marshaled.

All RRF vessels must have both a high degree of military utility and a significant remaining useful life. MARAD contracts with ship managers for maintenance and repair, activation, manning, and operation. The readiness of the RRF Program is tested regularly by no-notice activation of randomly selected ships or scheduled activation for military cargo operations or exercises. The first large scale activation of the RRF to support military mobilization was to support Operation Desert Shield/Storm. This activation led to interest in additional funding for maintenance and testing as well as for the use of reduced operating status (ROS) crews for priority ships to ensure readiness.

The RRF program is funded by the DOD.

	FY 1995	FY 1996
# Sea Trials	14	60
# Ships (ROS)	20	46
\$ (millions)	176.3	288.3

Title XI Loan Guarantees (Federal Ship Financing Guarantee) Program

Under the Title XI Loan Guarantees Program, the Federal Government guarantees full payment to the lender of the unpaid principal and interest in the event of default. Funds guaranteed under this program are obtained from the private sector to aid in U.S. shipyard construction or reconstruction of merchant vessels or for U.S. shipyard modernization projects.

Beginning in FY 1992, the Credit Reform Act required MARAD to obtain appropriations to cover the estimated subsidy cost of new Title XI Loan Guarantees. Appropriations are also required to fund administrative expenses. An appropriation of \$40 million was approved for FY 1996 subsidy costs. In FY 1996, approvals of \$1.1 billion were issued for Title XI financing.

As of September 30, 1996, Title XI Loan Guarantees in force aggregated approximately \$2.5 billion, covering approximately 1,933 vessels. MARAD had no defaults in FY 1996.

Operating Differential Subsidy (ODS) Program

This program provides subsidies to U.S. ship operators to place U.S. flag vessels on a parity with those of foreign competitors. These are 20 year contracts between the Federal Government and subsidized vessel operators. Subsidy is provided for wages in all cases, and maintenance and repair and insurance costs in some cases. Appropriations are provided to liquidate contract authority. Payments were about \$164.7 million in FY 1996 and will decline to zero during 2002 as existing contracts expire.

Current law requires that most subsidized ships be built in U.S. shipyards. The statutory life of ODS ships is 25 years for dry cargo ships, and 20 years for tankers. Currently there are 5 liner operators with 25 vessels and 10 bulkers (23 vessels) under subsidy.

Ocean Freight Differential (OFD) Program

In general, all military cargoes and a portion of all shipments of food and humanitarian assistance paid for by the Department of Agriculture and the Agency for International Development must be shipped on U.S. flag vessels. The Government pays the differential between shipping costs on U.S. flag vessels and foreign flag vessels. P.L. 99-198 increased from 50 to 75 percent the amount of agricultural commodities under specified programs that must be carried on U.S. flag vessels. In general, the differential shipping costs are covered by the Federal agency shipping goods, but MARAD is required to reimburse the Department of Agriculture for ocean freight differential costs for the added tonnage above 50 percent but not exceeding the additional 25 percent. These reimbursements are funded through borrowing from the Treasury.

During the past nine years, MARAD reimbursed the Department of Agriculture \$346 million for its OFD obligations. This resulted in just under 14 million metric tons of additional agricultural food aid cargo for U.S. flag carriers at an average OFD rate of \$25 per metric ton.

Capital Construction Fund (CCF) Program

The CCF program assists operators in accumulating their own capital to build, acquire, and reconstruct vessels through the deferral of Federal income taxes on eligible

deposits. Operators may defer taxes on funds deposited in the CCF and withdraw the money at a later date to build or acquire vessels. In general, the taxable income of the operator is reduced to the extent deposits of money are made into the fund. The outstanding fund balances amounted to \$1.2 billion at the end of FY 1996, with 123 fund holders. There have been cumulative deposits of \$6.2 billion since program inception to accomplish construction and acquisition programs.

Assistance to State Maritime Schools Program

Financial assistance is administered for maritime academies at Vallejo, California; Castine, Maine; Buzzards Bay, Massachusetts; Traverse City, Michigan; Fort Schuyler, New York; and Galveston, Texas. Graduates receive USCG licenses and Bachelor of Science degrees (associate degrees are awarded at Traverse City). MARAD also subsidizes a share of the operating costs of the schoolships. All of the State maritime academies use schoolships for training except the Great Lakes Maritime Academy located in Traverse City, Michigan, where students accumulate sea time on commercial ships operating on the Great Lakes. The MARAD appropriation for schoolship maintenance and repair has averaged about \$5 million over the past five years, distributed equally for each of the five schoolships.

In FY 1996, there were approximately 1900 students pursuing degrees in State

maritime school programs which qualify graduates for a merchant marine officer's license. For the estimated 440 graduates in the Class of 1996; the average Federal cost per graduate was approximately \$24,000.

Approximately half of the 440 graduates participated in the Student Incentive Payment Program, receiving \$3,000 per year to offset school expenses. For those graduates there is an obligation upon graduation to accept an appointment as an officer in the U.S. Naval Reserve for eight years; be employed in the maritime industry for three years; and maintain a license as an officer in the American Merchant Marine for at least six years.

United States Merchant Marine Academy (USMMA) Program

The USMMA at Kings Point, NY, is a Federally funded national educational institution. It is operated by MARAD and offers a four-year full scholarship undergraduate program leading to a Bachelor of Science degree and a merchant marine officer's license. The total student body is approximately 800 midshipmen. The cost per graduate at the USMMA is significantly less than at the other four Federal academies, in part because the USMMA does not provide pay and allowances to its students. For the 187 graduates in the Class of 1996, the Federal cost per graduate was approximately \$126,000. Because USMMA students receive a full scholarship for their four year undergraduate education, they are obligated on graduation to accept an appointment as an officer in the U.S.

naval reserve for eight years; be employed in the maritime industry for five years; and maintain a license as an officer in the American Merchant Marine for at least six years.

War Risk Insurance Fund (WRIF) Program

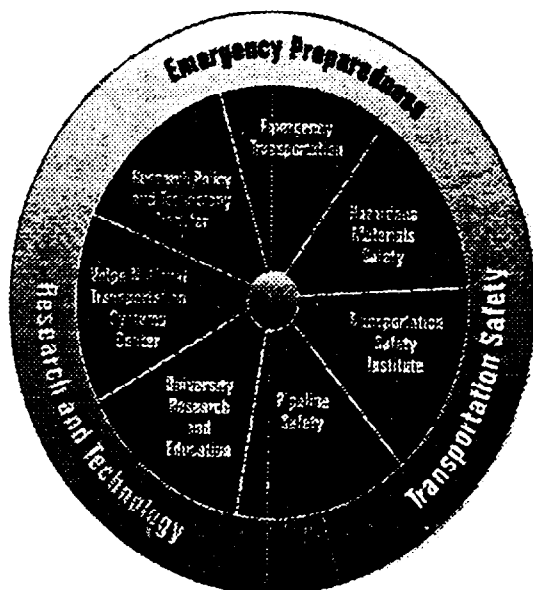
The program encourages continued flow of U.S. foreign commerce during periods when commercial insurance cannot be obtained on reasonable terms and conditions to protect vessel operators and seamen against losses resulting from war. This program offers the advantage of avoiding the high rates charged by commercial insurers, which Defense or other Federal agencies would have to pay when chartering or hiring shipping into certain areas. The Federal Government is a self insurer that has some degree of control over the risks involved. The MARAD also administers a stand-by war risk insurance program. As of September 30, 1996, there were 257 binders on vessels and barges providing eligibility for hull protection and indemnity and second seamen war risk insurance. There were four new assureds receiving five binders during FY 1996. The WRIF total was approximately \$26.7 million. During FY 1996, the Fund had a net result of \$1.69 million, on revenues of \$1.73 million and total expenses of \$40 thousand.

Research and Special Programs Administration (RSPA)

The mission of RSPA is to make America's transportation systems more integrated, effective, and secure by conducting and fostering crosscutting research and special programs to enhance the quality of life, safety, the environment, and the well-being of all Americans. RSPA's mission can be broken down into three major categories: transportation safety, research and technology, and emergency preparedness.

Their safety mandate is to protect the Nation from the risks inherent in the transportation of hazardous materials by all modes, including pipelines.

Major Programs



Transportation Safety

- Hazardous Materials (HAZMAT) Safety Program identifies hazardous materials and works with the shipping and carrier industry, Federal, State, and local government agencies, and others on standards and regulations regarding packaging, labels, operating practices, response planning, and employee training.

Regulated materials include bulk shipments of highly hazardous materials and compressed gas containers. The program also sets requirements for training employees involved in transporting hazardous materials. RSPA maintains a toll-free telephone information service to provide immediate help regarding safe hazardous materials practices. (1-800-467-4922)

During FY 1996 RSPA improved the safety of air travel by banning the transport of oxygen generators in the cargo compartment of passenger aircrafts.

During FY 1996 the HAZMAT enforcement staff issued 239 notices of possible violations and 195 orders. Total penalties collected during FY 1996 were approximately \$970 thousand.

- Pipeline Safety Program assures the safe, reliable, and environmentally-sound transportation of natural gas and hazardous liquids by pipeline.

This national program regulates the design, construction, operation, maintenance, and emergency response procedures pertaining to gas and hazardous liquids pipeline systems and liquefied natural gas facilities. RSPA develops, issues, and enforces minimum pipeline safety regulations.

During FY 1996 RSPA reduced the risk of pipeline failures by completing over 350 inspections of natural gas and 350 inspections of hazardous liquid pipelines. RSPA further strengthened pipeline safety by establishing a risk-based approach for improving the pipeline infrastructure. In FY 1996, as a result of an aggressive inspection program, RSPA substantially exceeded its goal to reduce the number of natural gas transmission pipeline failures and hazardous liquid pipeline failures.

- Transportation Safety Institute (TSI) supports safety and security programs for all modes of transportation through the development and conduct of training in many forms: classroom teaching, self-teaching course modules, train-the-trainer courses, and distance learning. The safety professionals who are the recipients of TSI's safety training come from all levels of Federal, State and local governments, industry, and business.

During FY 1996, TSI celebrated its silver anniversary and graduated its 350,000th student since

inception. In FY 1996, TSI also developed 16 new courses and provided 399,136 total student training hours.

Research and Technology Program

- John A. Volpe National Transportation Systems Center (Volpe Center) is a Federal research analysis and systems engineering resource which anticipates and responds to transportation challenges from an intermodal perspective. On a fee-for-service basis, the Volpe Center provides systems development and deployment of technologies to enhance the overall effectiveness of the Nation's transportation systems and infrastructure. In FY 1996 the Volpe Center obligated \$186 million on 332 projects.

The Volpe Center completed its first comprehensive and systematic review of customer satisfaction with its services. One question asked during each of the 217 "project level" interviews was "overall, how satisfied are you with the Volpe Center?" Using a 0 to 10 scale, where 0 meant 'extremely dissatisfied' and 10 meant 'extremely satisfied', 85 percent of the responses were in the 7 to 10 range. Based on the feedback from customers, the Volpe Center has taken steps to improve upon these favorable results. RSPA conducts research and analysis of transportation technologies and systems for

clients in DOT and other Federal agencies.

- **Research Policy and Technology Transfer Program** produces the Department's long range plan for research and materials technology, and supports Departmentwide coordination through the Research and Technology Coordinating Council and its Steering Committee. RSPA's Technology Transfer work ensures that research results reach State, local, and regional transportation decision makers across the country. The research products are made available through a centralized clearinghouse and through the Department's many technology assistance programs. RSPA has primary responsibility for coordinating intermodal transportation research and technology.

In FY 1996 RSPA conducted six follow-on workshops on transportation technology issues.

- **University Research and Education Program** manages a multimodal program of university research, education, and technology transfer. In FY 1996 RSPA expanded the grant program to fourteen University Transportation Centers and five University Research Institutes.

Emergency Preparedness Program

- **Emergency Transportation Program** develops and maintains

the Department's emergency preparedness programs and manages the transportation Crisis Management Center covering a full spectrum of civilian and national security crises. RSPA staff coordinate the Departmental response to local and national disasters. During FY 1996, RSPA responded to 47 emergencies and issued 133 reports. This number compares to 40 emergencies in FY 1995 and 38 in FY 1994.

Surface Transportation Board (STB)

STB was established on January 1, 1996, by the Interstate Commerce Commission Termination Act of 1995 (ICCTA). The ICCTA eliminated the Interstate Commerce Commission (ICC) and transferred certain functions formerly performed by the ICC to the STB. The STB is a three-member, bipartisan, decisionally-independent adjudicatory body with jurisdiction over certain surface transportation economic regulatory matters.

The mission of STB is to promote commerce by providing a forum for dispute resolution and facilitation of appropriate business transactions. During FY 1996, STB took approximately 1400 actions, resolving or otherwise acting upon matters such as rail consolidations, abandonments, and complaint cases; rail line constructions and sales; and motor carrier undercharge cases.

***Bureau of Transportation
Statistics (BTS)***

BTS was established in late 1992, as part of the ISTEA. BTS compiles and publishes statistics on all major transportation modes, conducts long-term data collection programs, and identifies needs for transportation data. BTS provides its Government users as well as the general public with uniform and comprehensive financial, traffic, and economic data for the transportation industry. DOT uses this data and customized computer services to support policy initiatives, advance safety programs, meet international travel responsibilities, and comply with international treaty obligations.

Office of the Secretary (OST)

OST under the executive direction of the Secretary gives leadership, professional guidance, broad oversight, and coordination in the development and implementation of policies, plans, and programs to DOT. OST serves as the catalyst for many of the Department's initiatives.

In January 1996, OST led an effort to open the first metropolitan office, located in Los Angeles, California, which is jointly staffed by FHWA and FTA personnel. This action has improved customer service and reduced redundancy through the sharing of resources and responsibilities. Although most OST offices and personnel are located in the Washington, D.C. area,

consolidation of Departmental Civil Rights offices under OST during FY 1995 and FY 1996 resulted in some OST employees now being located throughout the U.S. in regional offices.

In November 1995, DOT established the Transportation Administrative Service Center (TASC) to provide common administrative services, such as building management, security, telecommunications, etc., to OST and the DOT Operating Administrations. TASC is designed to operate as a business enterprise in the competitive marketplace and can expand its clientele to non-DOT organizations to provide greater economies of scale, thus reducing costs to individual customers. TASC functions as an entrepreneurial and self-sufficient entity embodying the concepts associated with "reinventing Government" and providing competitive, quality services responsive to customer needs.

One of TASC's major accomplishments for FY 1996 was the Information Technology Omnibus Procurement (ITOP) program. ITOP is a highly visible, multi-vendor, Governmentwide, 7 year, \$1.13 billion information technology services program that embodies the tenets of the National Performance Review and various procurement reform legislation of recent years. The program has resulted in competitive task orders being issued in 4-6 weeks rather than 6 months to 2 years.

Preliminary data indicate that DOT awarded \$2.9 billion, including Small Business Administration (8a) awards and contracts with Departmental prime contractors, to disadvantaged business enterprises. In addition, highway, transit, air, and rail contracts in the amount of \$2.4 billion were also received by disadvantaged business enterprises from DOT-assisted State and local transportation agencies.

Office of Inspector General (OIG)

OIG is an independent organization within the Department established by the Inspector General Act of 1978, as amended. The mission of OIG is to conduct and supervise audits, evaluations, and investigations relating to the programs and operations of the Department; recommend policies which promote economy, efficiency, and effectiveness in activities involving DOT and other entities; prevent and detect fraud, waste, and abuse; and keep the Secretary informed regarding problems and deficiencies.

In FY 1996, OIG audits resulted in \$38.7 million in questioned costs and \$522 million in recommendations for funds to be put to better use. OIG evaluations completed 30 projects, resulting in 20 reports and 52 recommendations. OIG investigations resulted in \$10 million in recoveries, \$4.5 million in fines, and \$2.4 million in court-ordered restitutions or civil judgments.

Saint Lawrence Seaway Development Corporation (SLSDC)

SLSDC is a wholly-owned Government corporation created to construct, operate, and maintain a safe, reliable and efficient deep draft shipping route. This Saint Lawrence Seaway System includes the Great Lakes and the Saint Lawrence River to the Atlantic Ocean. It provides a vital means of international commerce and economic development, allowing import and export between the North American heartland and the world. SLSDC also has responsibility for the promotion of trade and traffic through this waterway.

On March 4, 1996, Vice President Gore announced the selection of SLSDC as 1 of 8 Federal agencies to be restructured as a Performance Based Organization (PBO). To create a PBO, "factory" functions or services are separated from policy responsibilities; a financial plan and budget, and procurement and personnel systems are established; and a chief executive officer is hired to run day-to-day operations. The structural changes are intended to reduce operating costs and improve efficiency and are to become effective for SLSDC in FY 1998.

Since SLSDC is subject to separate reporting under the Government Corporation Control Act and the dollar value of its activities is not material to Departmental totals, SLSDC line item amounts have not been included in the DOT principal financial statements.

However, Note 22 to the financial statements contains condensed information about SLSDC assets, liabilities, and net position as of September 30, 1996.

Stretching the Federal Dollar Through Innovative Financing

One of the highest priorities of the Department is to find ways to increase total funding for transportation infrastructure. In an era of severe limitations on available resources and national deficit reduction, traditional public funding needs to be leveraged in more creative ways to meet the increasing demands for improvements to our Nation's highways, bridges and transit systems. Creative mechanisms for funding projects are fostered by the ISTEA.

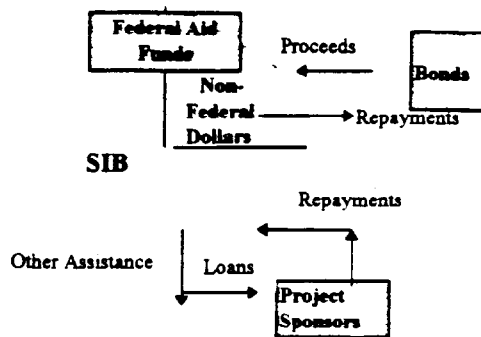
To build on the opportunities provided by ISTEA, the Department identified and used innovative financing strategies that cut red tape and helped supplement Federal funds with private and non-Federal public sector investment in transportation projects. This was done through our Partnership for Transportation Investment program and by creating State Infrastructure Banks, a pilot program authorized by the National Highway System Designation Act of 1995.

The Partnership for Transportation Investment (PTI) Program uses new financing methods to launch critical transportation projects nationwide without using additional Federal resources. PTI moves beyond the

use of one method of funding public infrastructure--grant reimbursement--to multiple strategies such as adding private dollars to, or substituting for, State matching funds, and leveraged leasing instead of purchasing. PTI allows a State's costs for bond principal, interest and other bond issuance expenses to be eligible for reimbursement with Federal funds. Private sector capital is more attracted to transportation projects when bonds, notes, and other debt instruments are supported by both State and Federal Aid funds. Under PTI, FHWA provides phased Federal funding which enables States to begin projects right away instead of waiting until they accumulate the entire Federal share of a projects cost before they begin construction.

Under FHWA's Test and Evaluation (TE-45) innovative financing program, by July 1996, over 74 such projects were initiated in 31 States. With a total value of more than \$4.5 billion, they already have generated about \$1.2 billion in increased non-Governmental public and private investment above and beyond what would have been available through conventional financing. Plus, the construction phase on these projects has been advanced by an estimated 2 years.

State Infrastructure Banks (SIBS) fund infrastructure investments at either the State or regional level. SIBS give States and regions new financing capability to complement other DOT programs.



SIBS are created with Federal seed money (also known as capitalization grants). Under the funding arrangements, States can use seed funds to loan money to transportation projects, use the funds as a credit enhancement, or subsidize the interest rates for a project. Loans are repaid through project revenue streams and can be used again for new projects, ensuring that funds are always available.

DOT selected 10 States for the initial SIB pilot program (Arizona, California, Florida, Missouri, Ohio, Oklahoma, Oregon, South Carolina, Texas and Virginia). In FY 1996, four States (Ohio, Oregon, Arizona, and Texas) signed cooperative agreements and deposited Federal and non-Federal funds into the SIBs with Ohio making the first loan under the program. Agreements with the remaining six States are expected in early FY 1997 when the pilot program will also be expanded to include additional States.

DOT's Financial Management Vision

In 1994, the Department issued its Financial Management Strategic Plan to ensure that financial management policies, practices, systems, and staff effectively support the Department's Strategic Plan and mission. It outlines the visions and strategy for a new financial management service. The Plan is being carried out through the direction of the Chief Financial Officer (CFO) and the oversight of the DOT CFO Council. Its visions are:

- 1. DOT has financial management policies and practices that meet our customer's needs.*
- 2. DOT has integrated financial management systems that provide a valuable information base for its program, budget, and finance managers.*
- 3. DOT has the necessary information to facilitate effective resource utilization and performance measurement.*
- 4. DOT has achieved high standards of accountability built on a knowledgeable, empowered workforce and strong partnerships.*

The financial management community has taken many actions on the road to meeting its goals. Administrative savings of approximately \$27 million were achieved in FY 1996 through such

actions as promoting the use of small purchase credit cards. Financial management policy issuances were reduced by 58 percent. A new Executive Reporting Framework system was implemented to help managers make better decisions. These and many other financial management accomplishments are published in the FY 1996 Chief Financial Officer Status Report and 5-Year Plan.

Managing By Performance

Building on the requirements of the Government Performance and Results Act of 1993 (GPRA), the Department continues working to target resources better and develop specific measurable goals and plans to achieve them. GPRA requires agencies to create plans that identify their mission and strategic goals, set annual performance goals that are related to the strategic goals, describe in general how the goals will be achieved and the resources needed, and identify measures that will be used to gauge progress towards achieving the goals. Agencies must report back to Congress annually on their performance. This cycle of planning, executing, and evaluating is intended to increase accountability and internal management, improve customer service, and improve Government effectiveness.

To begin implementing GPRA, DOT sponsored four performance measurement pilot projects (at USCG, NHTSA, FAA and FHWA).

Part of the success of the pilot projects was in sharing lessons learned throughout DOT to help prepare everyone to meet the GPRA requirements. DOT then required all Operating Administrations to identify their programs, goals, and preliminary measures as part of the FY 1997 budget process. During FY 1996 DOT prepared to execute a complete "dress rehearsal" of GPRA requirements in the FY 1998 budget. All Operating Administrations' submissions were required to have performance information integrated into the budget. With this information, a performance-based review of the budget requests was conducted. A DOT Preliminary Performance Plan is part of the DOT FY 1998 budget submission to Office of Management and Budget.

DOT will measure movement towards goals at many levels to determine attainment of goals as well as strategies for improving performance. In addition to progress on developing individual Operating Administration goals and measures, work continues on developing Departmental goals and measures to reflect a high-level, cross-cutting view across DOT. In line with the Secretary's Strategic Plan of 1994, the following *outcome areas of clear Federal interest* have been identified as the basis for developing Departmental performance measures:

- *Mobility - Ensure transportation systems provide access and availability to move people and goods effectively and efficiently*

Departmental Overview

to support travel, commerce, and national defense.

- *National Security/National Defense - Enhance emergency and national security preparedness and transportation system security to support the President's National Security Strategy.*
- *Safety - Eliminate deaths, injuries, and property damage associated with transportation.*
- *Environmental Protection - Eliminate environmental damage and natural resource degradation associated with transportation.*
- *Technological Progress - Accelerate research and technological advances to make our transportation system more efficient, environmentally sound, and safe.*

The Operating Administrations' performance measures that are discussed in this report are presented as interim measures while development of Departmental performance goals continues. The intent is that the performance goals supporting each of the above will be clearly stated, high-level goals with target performance levels and specific measures that will identify the relative balance among the sometimes competing areas of interest.

U.S. Department of Transportation
Consolidating Statement of Financial Position

As of September 30, 1996

(Dollars in Thousands)

Assets	HTF	FAA	USCG	All Other	(Eliminations)	1996 DOT Total
Entity Assets:						
Intragovernmental Assets:						
Fund Balance With Treasury	436,402	834,726	1,561,154	7,643,990	75,085	10,551,357
Investments	21,183,660	7,744,241	1,209,209	63,179		30,200,289
Accounts Receivable, Net	14,683	168,007	65,988	167,270	(27,873)	388,075
Interest Receivable	289,554	120,995	1,561	18		412,128
Advances and Prepayments	6,032	63,276	73,389	41,050	(143,637)	40,110
Other		11,585	211,487			223,072
Governmental Assets:						
Investments			27			27
Accounts Receivable, Net	4,234	24,557	33,851	7,541		70,183
Credit Program Receivables and Related Foreclosed Property, Net		548		142,559		143,107
Interest Receivable				249		249
Advances and Prepayments	184,665	2,605	9,240	1,365		197,875
Other			367	637		1,004
Cash and Other Monetary Assets		26	5,149	5,751		10,926
Inventory, Net			46,795			46,795
Operating Materials and Supplies, Net		431,993	875,199	59,234		1,366,426
Property and Equipment, Net	37,575	8,799,076	13,282,325	2,223,057		24,342,033
Total Entity Assets	22,156,805	18,201,635	17,375,741	10,355,900	(96,425)	67,993,656
Non-Entity Assets:						
Intragovernmental Assets:						
Fund Balance With Treasury			(4,928)	193		(4,735)
Interest Receivable						
Other			13,781			13,781
Governmental Assets:						
Accounts Receivable, Net			11,181	7,482		18,663
Total Non-Entity Assets			20,034	7,675		27,709
Total Assets	22,156,805	18,201,635	17,395,775	10,363,575	(96,425)	68,021,365

U.S. Department of Transportation
Consolidating Statement of Financial Position
As of September 30, 1996
(Dollars in Thousands)

	<u>HTF</u>	<u>FAA</u>	<u>USCG</u>	<u>All Other</u>	<u>(Eliminations)</u>	<u>1996 DOT Total</u>
Liabilities						
Liabilities Covered by Budgetary Resources:						
Intragovernmental Liabilities:						
Accounts Payable	1,317	147,286	56,467	11,483	(39,242)	177,311
Other	201	41,318	253,239	96,137	(77,789)	313,104
Governmental Liabilities:						
Accounts Payable	627,467	439,630	102,092	146,507		1,315,696
Liabilities for Loan Guarantees				80,068		80,068
Other	12,922	164,753	105,796	93,359		376,830
Total Liabilities Covered by Budgetary Resources	641,907	792,985	517,594	556,659	(117,031)	2,392,114
Liabilities Not Covered by Budgetary Resources:						
Intragovernmental Liabilities:						
Debt		21				21
Other		184,238	102,381	13,916		301,035
Governmental Liabilities:						
Lease Liabilities		110,969				110,969
Pensions & Other Actuarial Liabilities	10,068	821,258	17,836,114	37,232		18,704,672
Other	31,815,870	2,785,631	116,230	295,823		35,013,554
Total Liabilities Not Covered by Budgetary Resources	31,825,938	3,902,137	18,055,225	346,971		54,130,271
Total Liabilities	32,467,845	4,695,122	18,572,819	903,630	(117,031)	56,522,385
Net Position						
Balances:						
Unexpended Appropriations	2,836,649	1,999,209	1,439,242	7,408,638	(9,440)	13,875,298
Invested Capital	302,057	11,175,505	14,204,346	2,268,644	13,839	27,964,391
Cumulative Results of Operations	18,376,192	4,339,418	1,247,415	120,021	16,207	24,099,253
Other		(105,480)	(12,822)	8,613		(109,689)
Future Funding Requirements	(31,825,938)	(3,902,137)	(18,055,225)	(346,971)		(54,130,271)
Total Net Position	(10,311,040)	13,506,513	(1,177,044)	9,459,945	20,606	11,498,980
Total Liabilities and Net Position	22,156,805	18,201,635	17,395,775	10,363,575	(96,425)	68,021,365

U.S. Department of Transportation
Consolidating Statement of Operations
For the Period Ended September 30, 1996
(Dollars in Thousands)

Revenues and	HTF	FAA	USCG	All Other	(Eliminations)	1996 DOT Total
Financing Sources						
Appropriated Capital Used	23,478,657	8,481,916	3,569,565	3,517,218	(133,496)	38,914,060
Revenues from Sales of Goods and Services						
To the Public	6,896	19,291	103,715	1,208,979		1,338,881
Intragovernmental	47,194	151,059	229,169	796,068	(174,620)	1,048,870
Interest and Penalties, Non-Federal		4,852	16,326	37,894		59,072
Interest, Federal	1,337,009	694,617	71,129	5,920		2,108,675
Taxes	24,650,893	2,404,970	900			27,056,763
Other Revenues and Financing Sources		280,553	747,392	56,861	(698)	1,084,218
Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	(23,321,628)	(6,627,152)	(29,402)	(52,042)		(30,030,224)
Total Revenues and Financing Sources	26,199,221	5,410,216	4,708,794	5,570,898	(308,814)	41,580,315
Expenses						
Program or Operating Expenses	23,483,085	9,147,592	3,889,098	4,915,275	(292,070)	41,142,980
Cost of Goods Sold						
To the Public			9,946	25,117	(23,940)	11,123
Intragovernmental	50,604	137,506	212,928	401,217	(23,843)	778,312
Depreciation and Amortization	587	14,245	2,277	5,529		22,638
Bad Debts and Writeoffs	69	2,029	20,980	10,532		33,610
Interest						
Federal Financing Bank/Treasury Borrowing		(1)		3,241		3,240
Federal Securities						
Other	39	7,566		32		7,637
Other Expenses	1	817,607		3,367	(698)	820,277
Total Expenses	23,534,385	10,126,544	4,135,129	5,364,310	(340,551)	42,819,817
Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	2,664,836	(4,716,328)	573,665	206,588	31,737	(1,239,502)
Plus (Minus) Extraordinary Items		(222,584)	161,443			(61,141)
Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	2,664,836	(4,938,912)	735,108	206,588	31,737	(1,300,643)
Change in Net Position						
Net Position, Beginning Balance, as Previously Stated	19,086,917	18,750,222	5,783,308	9,534,795	7,452	53,162,694
Adjustments	(4,121,429)	617,168	(744,809)	9,009		(4,240,061)
Net Position, Beginning Balance, as Restated	14,965,488	19,367,390	5,038,499	9,543,804	7,452	48,922,633
Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	2,664,836	(4,938,912)	735,108	206,588	31,737	(1,300,643)
Plus (Minus) Non Operating Changes	(27,941,364)	(921,965)	(6,950,651)	(290,447)	(18,583)	(36,123,010)
Net Position, Ending Balance	(10,311,040)	13,506,513	(1,177,344)	9,459,945	20,606	11,498,980

U.S. Department of Transportation Combining Statement of Financial Position - All Other

As of September 30, 1995
(Dollars in Thousands)

Assets	FHWA	ETA	NHTSA	FRA	QSI	BIS	SIR	QIG	YNTSC	OTHER RSPA	MARAD	ALL OTHER TOTALS
Entity Assets:												
Intragovernmental Assets:												
Fund Balance With Treasury	1,090,602	5,087,453	86,278	685,219	59,479	692	5,615	8,410	61,847	51,265	507,130	7,643,990
Investments	0	0	0	1,596	1	0	0	0	0	0	81,583	63,176
Accounts Receivable, Net	5,159	10,178	6	49	21,618	0	1,104	0	5,927	8,790	114,439	167,270
Interest Receivable	0	0	0	18	0	0	0	0	0	0	0	18
Advances and Prepayments	0	6,205	6,592	3,148	16,836	0	4,206	481	0	3,438	144	41,050
Other Intragovernmental	0	0	0	0	0	0	0	0	0	0	0	0
Governmental Assets												
Investments	0	0	0	0	0	0	0	0	0	0	0	0
Accounts Receivable, Net	2	2,967	0	4,007	111	0	15	0	1	49	389	7,541
Credit Program Receivables and Related Foreclosed Property, Net	30,950	0	0	85,388	1,968	0	0	0	0	0	24,253	142,559
Interest Receivable	0	0	0	0	249	0	0	0	0	0	0	249
Advances and Prepayments	0	1	1,089	21	10	0	0	119	2	120	3	1,365
Other Governmental	637	0	0	0	0	0	0	0	0	0	0	637
Cash and Other Monetary Assets	0	0	2	0	5,747	0	0	0	0	0	2	5,751
Inventory, Net	0	0	0	0	0	0	0	0	0	0	0	0
Operating Materials and Supplies, Net	0	0	0	0	0	0	0	0	0	0	0	0
Stockpile Materials, Net	0	0	0	0	0	0	0	0	0	0	0	0
Seized Property	0	0	0	0	0	0	0	0	0	0	0	0
Forfeited Property, Net	0	0	0	0	0	0	0	0	0	0	0	0
Goods Held Under Price Support and Stabilization Programs, Net	0	0	0	0	0	0	0	0	0	0	0	0
Property and Equipment, Net	77	207	16,747	137,870	11,023	0	766	1,296	32,258	29	2,022,784	2,223,057
Other Entity Asset	0	0	0	0	0	0	0	0	0	0	0	0
Total Entity Assets	1,127,427	5,107,011	110,714	917,315	117,042	692	11,706	10,306	100,035	63,691	2,789,961	10,355,900
Non-Entity Assets:												
Intragovernmental Assets												
Fund Balance With Treasury	0	0	0	0	0	0	0	13	121	59	0	193
Accounts Receivable, Net	0	0	0	0	0	0	0	0	0	0	0	0
Interest Receivable	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0
Governmental Assets												
Accounts Receivable, Net	3,072	2,032	0	1,710	125	0	0	0	0	543	0	7,482
Interest Receivable	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0
Cash and Other Monetary Assets	0	0	0	0	0	0	0	0	0	0	0	0
Other Non-Entity Assets	0	0	0	0	0	0	0	0	0	0	0	0
Total Non-Entity Assets	3,072	2,032	0	1,710	125	0	0	13	121	602	0	7,675
Total Assets	1,130,499	5,109,043	110,714	919,025	117,167	692	11,706	10,319	100,156	64,293	2,789,961	10,363,575

U.S. Department of Transportation Combining Statement of Financial Position - All Other

As of September 30, 1998
(Dollars in Thousands)

	FHWA	FTA	NHTSA	FRA	OSI	BIS	SIB	OIG	VNTSC	OTHER RSPA	MARAD	ALL OTHER TOTALS
Liabilities												
Liabilities Covered by												
Budgetary Resources:												
Intragovernmental Liabilities:												
Accounts Payable	9	97	26	440	4,552	0	4,209	77	1,693	380	0	11,480
Interest Payable	0	0	0	0	0	0	0	0	0	0	0	0
Debt	33,569	0	0	78,675	16,861	0	0	0	0	0	0	129,105
Other Intragovernmental Liabilities	3,072	3,053	12	634	1,975	0	874	0	31,669	3,757	51,091	96,131
Governmental Liabilities												
Accounts Payable	18,169	16,103	2,160	2,465	13,128	8	110	896	28,492	1,734	63,242	148,501
Interest Payable	0	0	0	0	0	0	0	0	0	0	0	0
Liabilities for Loan Guarantees	0	0	0	0	0	0	0	0	0	0	80,068	80,068
Lease Liabilities	0	0	0	0	0	0	0	0	0	0	0	0
Pensions & Other Actuarial Liabilities	0	0	0	0	0	0	0	0	0	0	0	0
Other Governmental Liabilities	106	4,395	4,936	12,767	4,597	143	1,172	1,259	7,464	1,533	54,987	93,355
Total Liabilities Covered by												
Budgetary Resources	54,925	23,648	7,134	94,981	41,113	151	6,365	2,232	69,318	7,404	249,388	556,655
Liabilities Not Covered by												
Budgetary Resources:												
Intragovernmental Liabilities:												
Accounts Payable	0	0	0	0	0	0	0	0	0	0	0	0
Debt	0	0	0	0	0	0	0	0	0	0	0	0
Other Intragovernmental Liabilities	0	136	376	12,819	243	0	0	342	0	0	0	13,916
Governmental Liabilities												
Accounts Payable	0	0	0	0	0	0	0	0	0	0	0	0
Debt	0	0	0	0	0	0	0	0	0	0	0	0
Lease Liabilities	0	0	0	0	0	0	0	0	0	0	0	0
Pensions & Other Actuarial Liabilities	0	602	1,902	15,150	2,115	0	0	1,185	1,529	1,356	13,393	37,232
Other Governmental Liabilities	135	2,689	3,884	5,418	10,128	3	1,413	3,042	0	2,804	266,509	295,823
Total Liabilities Not Covered by												
Budgetary Resources	135	3,427	6,162	33,387	12,484	3	1,413	4,569	1,529	3,960	279,902	346,971
Total Liabilities	55,060	27,075	13,296	128,368	53,597	154	7,778	6,801	70,847	11,364	529,290	903,630
Net Position												
Balances:												
Unexpended Appropriations	1,079,226	5,085,188	57,832	683,290	55,573	541	4,575	6,791	0	56,860	390,762	7,409,638
Invested Capital	(33)	207	16,747	139,159	20,381	0	766	1,296	30,838	29	2,059,254	2,268,644
Cumulative Results of Operations	(2,619)	0	28,001	1,595	100	0	0	0	0	0	91,944	120,021
Other	0	0	0	0	0	0	0	0	0	0	8,613	8,613
Future Funding Requirements	(135)	(3,427)	(6,162)	(33,387)	(12,484)	(3)	(1,413)	(4,569)	(1,529)	(3,960)	(279,902)	(346,971)
Total Net Position	1,075,439	5,081,968	97,418	790,657	63,570	538	3,928	3,518	29,309	57,929	2,260,671	9,459,945
Total Liabilities and												
Net Position	1,130,499	5,109,043	110,714	919,025	117,167	692	11,706	10,319	100,156	64,293	2,789,961	10,363,575

U.S. Department of Transportation
Combining Statement of Operations - All Other
For the Period Ended September 30, 1996
(Dollars in Thousands)

Revenue and	FMDA	EIA	NHTSA	FRA	QSI	RIS	STB	QNG	UNISC	OTHER RSPA	MARAD	ALL OTHER TOTALS
Financing Sources												
Appropriated Capital Used	459,260	2,146,179	29,508	0	227,121	1,656	13,979	35,870	0	61,461	542,184	3,517,218
Revenues from Sales of Goods and Services	0	1,110,000	96,069	1,419	498	0	0	0	629	139	225	1,208,979
To the Public	13,184	13,406	25,168	543	161,564	0	1,104	0	190,843	32,234	358,022	796,068
Intragovernmental	0	0	0	4,798	268	0	0	0	0	0	32,828	37,894
Interest and Penalties, Non-Federal	0	0	0	73	868	0	0	0	0	0	4,979	5,920
Interest, Federal	0	0	0	0	0	0	0	0	0	0	0	0
Taxes	3,833	0	0	3,704	39	0	0	0	703	39,886	8,796	56,861
Other Revenues and Financing Sources	0	0	0	0	0	0	0	0	0	0	0	0
Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	0	0	0	(12,035)	0	0	0	0	0	(40,007)	0	(52,042)
Total Revenues and Financing Sources	476,377	3,269,585	150,745	(1,489)	390,358	1,656	15,083	35,870	192,175	93,513	947,034	5,570,898
Expenses												
Program or Operating Expenses	459,227	2,146,280	148,834	960,406	313,872	1,659	13,247	36,443	191,472	93,615	550,020	4,915,275
Cost of Goods Sold	0	0	0	1,419	0	0	0	0	0	0	23,698	25,117
To the Public	13,184	13,406	0	543	77,992	0	804	0	0	0	295,288	401,217
Intragovernmental	0	331	0	0	3,425	0	889	87	0	7	810	5,529
Depreciation and Amortization	136	0	0	7	56	0	0	2	0	(263)	10,594	10,532
Bad Debts and Writeoffs	0	0	0	0	0	0	0	0	0	0	0	0
Interest	1,914	0	0	191	1,136	0	0	0	0	0	0	3,241
Federal Financing Bank/Treasury	0	0	0	0	0	0	0	0	0	0	0	0
Borrowing	0	1	9	2	3	0	0	0	0	0	17	32
Federal Securities	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	1,902	0	165	0	0	306	703	291	0	3,367
Total Expenses	474,461	2,160,018	150,745	962,568	396,549	1,659	14,920	36,838	192,175	93,850	880,427	5,364,310
Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	1,916	1,109,567	0	(964,066)	(6,291)	(3)	163	(968)	0	(337)	68,607	206,588
Before Extraordinary Items	0	0	0	0	0	0	0	0	0	0	0	0
Plus (Minus) Extraordinary Items	0	0	0	0	0	0	0	0	0	0	0	0
Excess (Shortage) of Revenues and Financing Sources Over Total Expenses and Financing Sources	1,916	1,109,567	0	(964,066)	(6,291)	(3)	163	(968)	0	(337)	66,607	206,588
Change in Net Position												
Net Position, Beginning Balance, as Previously Stated	1,398,374	4,841,710	52,760	913,007	74,969	0	435	233	28,924	53,089	2,171,294	9,534,795
Adjustments	0	0	0	0	(1,370)	0	0	0	0	0	10,379	9,009
Net Position, Beginning Balance, as Restated	1,398,374	4,841,710	52,760	913,007	73,599	0	435	233	28,924	53,089	2,181,673	9,543,804
Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	1,916	1,109,567	0	(964,066)	(6,291)	(3)	163	(968)	0	(337)	66,607	206,588
Plus (Minus) Non Operating Changes	(324,851)	(969,309)	44,658	841,716	(3,738)	541	3,330	4,253	365	177	12,391	(290,447)
Net Position, Ending Balance	1,075,439	5,081,968	97,418	790,657	63,570	538	3,928	3,518	29,309	52,929	2,260,671	9,459,945

Consolidated Statement of Financial Position

U.S. Department of Transportation Consolidated Statement of Financial Position

As of September 30, 1996

(Dollars in Thousands)

Assets

1996 DOT Total

Entity Assets:

Intragovernmental Assets:

Fund Balance With Treasury (Note 2)	\$	10,551,357
Investments (Note 3)		30,200,289
Accounts Receivable, Net (Note 4)		388,075
Interest Receivable		412,128
Advances and Prepayments		40,110
Other (Note 5)		223,072

Governmental Assets:

Investments (Note 3)		27
Accounts Receivable, Net (Note 4)		70,183
Credit Program Receivables and Related Foreclosed Property, Net (Note 6)		143,107
Interest Receivable		249
Advances and Prepayments		197,875
Other (Note 5)		1,004

Cash and Other Monetary Assets

		10,926
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Inventory, Net (Note 7)

		46,795
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Operating Materials and Supplies, Net (Note 8)

		1,366,426
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Property and Equipment, Net (Note 9)

		24,342,033
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Total Entity Assets

\$	67,993,656
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Non-Entity Assets:

Intragovernmental Assets:

Fund Balance With Treasury (Note 2)	\$	(4,735)
Other (Note 5)		13,781

Governmental Assets:

Accounts Receivable, Net (Note 4)		18,663
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Total Non-Entity Assets

	27,709
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Total Assets

\$	68,021,365
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The accompanying notes are an integral part of this statement.

Consolidated Statement of Financial Position

U.S. Department of Transportation Consolidated Statement of Financial Position

As of September 30, 1996

(Dollars in Thousands)

1996 DOT Total

Liabilities

Liabilities Covered by Budgetary Resources:

Intragovernmental Liabilities:

Accounts Payable	\$	177,311
Debt (Note 10)		129,105
Other (Note 11)		313,104

Governmental Liabilities:

Accounts Payable		1,315,696
Liabilities for Loan Guarantees (Note 12)		80,068
Other (Note 11)		376,830

Total Liabilities Covered by Budgetary Resources

\$ 2,392,114

Liabilities Not Covered by Budgetary Resources:

Intragovernmental Liabilities:

Debt (Note 10)	\$	21
Other (Note 11)		301,035

Governmental Liabilities:

Lease Liabilities (Note 12)		110,989
Pensions and Other Actuarial Liabilities (Note 13)		18,704,672
Other (Note 11)		35,013,554

Total Liabilities Not Covered by Budgetary Resources

\$ 54,130,271

Total Liabilities

\$ 56,522,385

Net Position (Note 14)

Balances:

Unexpended Appropriations	\$	13,675,298
Invested Capital		27,964,391
Cumulative Results of Operations		24,099,251
Other		(109,689)
Future Funding Requirements		(54,130,271)

Total Net Position

\$ 11,498,980

Total Liabilities and Net Position

\$ 68,021,365

Consolidated Statement of Operations

U.S. Department of Transportation
Consolidated Statement of Operations
For the Period Ended September 30, 1996
(Dollars in Thousands)

Revenues and		1996 DOT Total
Financing Sources		
Appropriated Capital Used	\$	38,914,060
Revenues from Sales of Goods and Services		
To the Public		1,338,881
Intragovernmental		1,048,870
Interest and Penalties, Non-Federal		59,072
Interest, Federal		2,108,675
Taxes (Note 15)		27,056,763
Other Revenues and Financing Sources (Note 16)		1,084,218
Less: Taxes and Receipts Transferred to the Treasury or Other Agencies		(30,030,224)
Total Revenues and Financing Sources	\$	41,580,315
Expenses		
Program or Operating Expenses (Note 17)	\$	41,142,980
Cost of Goods Sold		
To the Public		11,123
Intragovernmental		778,312
Depreciation and Amortization		22,638
Bad Debts and Writeoffs		33,610
Interest		
Federal Financing Bank/Treasury Borrowing		3,240
Other		7,637
Other Expenses (Note 18)		820,277
Total Expenses	\$	42,819,817
Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items		(1,239,502)
Plus (Minus) Extraordinary Items (Note 19)		(61,141)
Excess (Shortage) of Revenues and Financing Sources Over Total Expenses		(1,300,643)
Change in Net Position		
Net Position, Beginning Balance, as Previously Stated	\$	53,162,694
Adjustments (Note 19)		(4,240,061)
Net Position, Beginning Balance, as Restated		48,922,633
Excess (Shortage) of Revenues and Financing Sources Over Total Expenses		(1,300,643)
Plus (Minus) Non Operating Changes (Note 20)		(36,123,010)
Net Position, Ending Balance	\$	11,498,980

UNAUDITED

The accompanying notes are integral part of this statement.

Notes to the Financial Statement

Note 1. Significant Accounting Policies:

A. Basis of Presentation

The Departmental consolidated financial statement has been prepared to report the financial position and results from operations of the Department of Transportation (DOT), as required by the Chief Financial Officers Act of 1990 (CFO Act), as amended by the Federal Financial Management Act of 1994 (FFMA), Title IV of the Government Management Reform Act of 1994 (GMRA). The statement has been prepared from the books and records of DOT in accordance with requirements for form and content for entity financial statements, as specified by OMB Bulletin 94-01, and DOT's accounting policies and procedures. These statements are different from the financial reports prepared pursuant to OMB directives that are used to monitor and control the use of budgetary resources.

B. Reporting Entity

DOT serves as the focal point in the Federal Government for the Coordinated National Transportation Policy. It is responsible for ensuring the safety of all forms of transportation; protecting the interests of consumers; international transportation agreements; conducting planning and research for the future; and helping cities and States meet their local transportation needs through financial and technical assistance.

The Department is comprised of the Office of the Secretary and the DOT Operating Administrations, each having its own management and organizational structure and collectively providing the necessary services and oversight to ensure the best transportation system possible. The Departmental consolidated financial statement represents the financial data, including various trust, revolving appropriations and special funds of the following organizations:

- Office of The Secretary (OST)
- Federal Aviation Administration (FAA)
- United States Coast Guard (USCG)
- Federal Highway Administration (FHWA)
- Federal Railroad Administration (FRA)
- National Highway Traffic Safety Administration (NHTSA)
- Maritime Administration (MARAD)
- Federal Transit Administration (FTA)
- Bureau of Transportation Statistics (BTS)
- Surface Transportation Board (STB)
- Office of Inspector General (OIG)
- Research and Special Programs Administration (RSPA)

The Saint Lawrence Seaway Development Corporation (SLSDC) is also an entity of DOT. However, since it is subject to separate reporting under the Government Corporation Control Act and the dollar value of its activities is not material to Departmental totals, SLSDC's financial data has not been consolidated in the DOT financial statements. However, condensed information about SLSDC's financial position is included in Note 22.

C. Budgets and Budgetary Accounting

DOT follows standard Federal budgetary accounting policies and practices in accordance with OMB Circular A-34, Instructions on Budget Execution. Each year, Congress provides each Operating Administration within DOT appropriations to incur obligations in support of agency programs. For FY 1996, the Department was accountable for trust fund appropriations, general

Notes to the Financial Statement

fund appropriations, revolving funds and borrowing authority. DOT recognizes budgetary resources as assets when cash (funds held by Treasury) is made available through warrants and trust fund transfers. DOT receives annual appropriations that provide annual amounts of contract authority that can be obligated.

D. Basis of Accounting

Transactions are generally recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. An exception to this rule is trust fund revenues from taxes. They are recorded on the basis of cash transferred from the Treasury General Fund. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds.

E. Revenues and Other Financing Sources

DOT receives the majority of the funding needed to support all of its programs through appropriations. Some of these appropriations are funded by the Highway Trust Fund, Airport and Airway Trust Fund and the Treasury General Fund. DOT receives annual, multi-year and no-year appropriations that may be used, within statutory limits, for operating and capital expenditures. Additional amounts are obtained from service fees (e.g., registry fees) and through reimbursable agreements for services performed for domestic and foreign governmental entities. Additional revenue is earned from gifts from donors, interest/dividends on invested funds, and loans. Interest income received is recognized as revenue on the accrual basis. Appropriations are recognized as revenues as the related program or administrative expenses are incurred.

F. Funds with the U.S. Treasury and Cash

DOT does not generally maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U. S. Treasury. The funds with the U. S. Treasury are appropriated, revolving, and trust funds that are available to pay current liabilities and finance authorized purchases. DOT has substantially reduced the number of petty cash (imprest) funds outside the U. S. Treasury to reduce the amount of cash paid outside of Treasury. This reduces the amount of interest which must be paid to borrow funds. DOT does not maintain any balances of foreign currencies.

G. Loans Receivables

Loans are accounted for as receivables after funds have been disbursed. For loans obligated prior to October 1, 1991, loan principal, interest, and penalties receivable are reduced by an allowance for estimated uncollectible amounts. The allowance is estimated based on past experience, present market conditions, and an analysis of outstanding balances. Loans obligated after September 30, 1991, are reduced by an allowance equal to the present value of the subsidy costs (due to the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries, the offset from fees, and other estimated cash flows) associated with these loans.

H. Inventory and Operating Materials and Supplies

Inventory primarily consists of supplies which are for sale or used in the production of goods for sale. Operating materials and supplies primarily consist of unissued supplies and reparable parts that will be used in future operations. Valuation methods for supplies on hand at year end

Notes to the Financial Statement

include weighted average cost, last acquisition/last repair cost, current or prior FEDLOG prices, historical cost, purchase order price, and standard price/specific identification. Expenses are recorded when the materials and supplies are issued.

I. Investments in U.S. Government Securities

Investments which consist of U. S. Government Securities are reported at cost, or amortized cost net of amortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment using the interest or straight-line method. The Department's intent is to hold investments to maturity, unless they are needed to cover losses on loan guarantees, finance programs, or otherwise sustain the operation of the organization. Investments, redemptions, and reinvestments are controlled and processed by the Department of the Treasury.

J. Property and Equipment

The basic capitalization policy for plant, property and equipment for most of the Department is that the acquisition cost must be \$5,000 or more, have a useful life of 2 or more years, and meet the criteria established, except for USCG which has established a threshold of \$25,000 for most property and equipment. Equipment with a unit acquisition cost less than the capitalization threshold is expensed. Software is capitalized at cost if the acquisition cost is \$25,000 or more and expensed when purchased if acquisition cost is less than \$25,000.

The Department has very limited historical cost to support the value of the property and equipment reflected on the Statement of Financial Position in excess of \$24 billion. Also, the Department has made limited use of depreciation but this will change when the new Federal Accounting Standards Advisory Board policy becomes effective.

Construction in progress is valued at direct (actual) costs plus applied overhead and other indirect costs as accumulated by the regional project material system. The system accumulates costs by project number assigned to the equipment or facility being constructed. Capital leases consist of lease agreements for land and buildings at the Mike Monroney Aeronautical Center in Oklahoma City, Oklahoma, and at the William J. Hughes Technical Center located in Pomona, New Jersey.

K. Prepaid and Deferred Charges

Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and recognized as expenses when the related goods and services are received.

L. Liabilities

Liabilities represent amounts expected to be paid as the result of a transaction or event that has already occurred. Liabilities for which an appropriation has not yet been enacted are classified as unfunded liabilities, and there is no certainty that the appropriation will be enacted. The Department's policy on unfunded contract authority is to recognize a future liability when agreements are entered into with State and local governments. Also, liabilities arising from other than contracts can be abrogated by the Government, acting in its sovereign capacity. The Department considers obligated unfunded contract authority as a liability not covered by budgetary resources and as a future funding requirement.

Notes to the Financial Statement

M. Borrowings Payable to Treasury

FAA borrowing involves loans from the Treasury to fund expenses from the Aircraft Purchase Loan Guarantee Program. Treasury renews the debt obligation until FAA receives an appropriation to liquidate the principal and interest. FRA has direct loans from Treasury and guaranteed loans made by the Federal Financing Bank (FFB) to railroads and guaranteed by FRA under provisions of the Railroad Rehabilitation and Improvement Program and the Amtrak Corridor Improvement Program. FRA records these loans as though they were direct loans.

OST borrows from the Treasury to finance loans to disadvantaged transportation-related businesses using revolving lines of credit. These OST loans are made through the Short Term Lending Program which provides assistance to disadvantaged, minority and women-owned businesses and is administered by the Office of Small and Disadvantaged Business Utilization.

FHWA Borrowings Payable to the Treasury are for direct loans in the High Priority Corridor Program. Upon repayment of the loans, the funds are returned to the Treasury.

N. Interest Payable to Treasury

FAA owes interest to Treasury based on its debt to Treasury as a result of borrowing for the Aircraft Purchase Loan Guarantee Program. Through FRA, the Amtrak Corridor Improvement Program and Railroad Rehabilitation Programs are required to make periodic interest payments to Treasury based on their debt to the U. S. Government.

O. Contingencies

Criteria for recognizing contingencies are that they are probable and reasonably estimable based on the occurrence of some specific event. For example, material contingent liabilities for claims are recognized if (1) they have been asserted, or, if not yet asserted, in the opinion of General Counsel are more likely to be asserted than not; (2) in the opinion of General Counsel, they are more likely to be paid than not; and (3) the probable payment can be estimated by General Counsel.

P. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. In FY 1996, accruals for other leave (e.g., credit hours, compensatory leave, home leave, and military leave) were also recorded in the financial statement. In addition to accruing the estimated costs of these hours, the Federal share of benefits were also accrued. Under the Working Capital Fund, the liability for accrued annual leave is a funded item. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expended as taken.

Q. Retirement Plan

For DOT employees who participate in the Civil Service Retirement System (CSRS), DOT contributes a matching contribution equal to 7 percent of pay. Most employees hired after December 31, 1983, are automatically covered by the Federal Employees Retirement System (FERS) and Social Security. Employees hired prior to January 1, 1984, could elect to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a

Notes to the Financial Statement

savings plan to which DOT automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. For most employees hired since December 31, 1983, DOT also contributes the employer's matching share for Social Security. DOT does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to employees. Reporting such amounts is the responsibility of the Office of Personnel Management.

The USCG Military Retirement System is a defined benefit plan which covers all active duty and reserve members of the USCG. This plan was established under authority of the United States Code, Titles 10 and 14. This system is funded on a "pay-as-you-go" basis.

R. Comparative Data

Comparative data for the prior year has not been presented because this is the first year for which consolidated financial statements have been prepared for DOT.

Notes to the Financial Statement

Note 2 Fund Balances with Treasury

A Fund Balances

(Dollars in Thousands)

	<u>Obligated</u>	<u>Unobligated</u>		<u>Total</u>
		<u>Available</u>	<u>Restricted</u>	
Entity:				
(1) Trust Funds	\$ 2,478,203	\$ (1,425,353)	\$ (406,159)	\$ 646,691
(2) Revolving Funds	18,585	323,385	-	341,970
(3) Appropriated Funds	7,481,296	1,839,678	187,873	9,508,847
(4) Other Fund Types	<u>34,964</u>	<u>2,963</u>	<u>15,922</u>	<u>53,849</u>
Total	<u>\$ 10,013,048</u>	<u>\$ 740,673</u>	<u>\$ (202,364)</u>	<u>\$ 10,551,357</u>
Non-Entity:				
(1) Other Fund Types	<u>\$ 134</u>	<u>\$ -</u>	<u>\$ (4,869)</u>	<u>\$ (4,735)</u>

- B. Other Information: Fund Balances with Treasury are the aggregate amounts of the entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. Obligated fund balances are available to liquidate (pay) obligations properly incurred before obligating authority expired. Unobligated, available fund balances are available for incurring new obligations (obligational authority has not yet expired). Unobligated, restricted fund balances are no longer available for incurring new obligations, but are only available for upward adjustments of obligations incurred during the period of availability or for paying claims attributable to the period.

Negative balances indicated in Trust Funds result because FAA determines the amount to be withdrawn bi-weekly based on cash outlays, not obligational authority, to minimize interest costs. In addition, the Airport Improvement Program has obligational authority but has not yet received a liquidating cash appropriation.

Notes to the Financial Statement

Note 3. Investments:

(Dollars in Thousands)

	<u>Cost</u>	<u>Market Value</u>	<u>Amortized (Premium) Discount</u>	<u>Investments (Net)</u>
A. Intragovernmental Securities:				
Marketable	\$ 62,516	\$ -	\$ 933	\$ 61,583
Non-Marketable:				
Par Value	8,944,497	-	51,725	\$ 8,892,772
Non-Marketable:				
Market-Based	<u>21,248,121</u>	<u>-</u>	<u>2,187</u>	<u>\$ 21,245,934</u>
Subtotal	<u>\$ 30,255,134</u>	<u>\$ -</u>	<u>\$ 54,845</u>	<u>\$ 30,200,289</u>
B. Governmental Securities:				
Private Corporation Stock	<u>\$ 27</u>	<u>\$ 63</u>	<u>\$ -</u>	<u>\$ 27</u>
Subtotal	<u>\$ 27</u>	<u>\$ 63</u>	<u>\$ -</u>	<u>\$ 27</u>
Total	<u>\$ 30,255,161</u>	<u>\$ 63</u>	<u>\$ 54,845</u>	<u>\$ 30,200,316</u>

C. Other Information: Marketable Federal Securities can be bought and sold on the open market.

Non-marketable par value Treasury securities are special series debt securities that Treasury issues to Federal entities at face value (par value). The securities are redeemed at face value upon maturity; thus, investing entities recover the full amount invested, plus interest. Non-marketable market-based Treasury securities are debt securities that Treasury issues to Federal entities without statutorily-determined interest rates. Although the securities are not marketable, their terms (prices and interest rates) mirror the terms of marketable Treasury securities. Amortization is done using the interest or straight-line method. Private corporation stock consists of common stock in USCG's Gift Fund.

Notes to the Financial Statement

Note 4. Accounts Receivable:

(Dollars in Thousands)

	Gross Amount Due	Allowance for Uncollectable Amounts	Net Amount Due
A. Entity:			
1. Intragovernmental:	<u>\$ 388,535</u>	<u>\$ 460</u>	<u>\$ 388,075</u>
2. Governmental:	<u>\$ 148,972</u>	<u>\$ 78,789</u>	<u>\$ 70,183</u>
B. Non-Entity:			
2. Governmental:	<u>\$ 20,366</u>	<u>\$ 1,703</u>	<u>\$ 18,663</u>

- C. Other Information: Allowance for Uncollectable Amounts is based on either review of individual receivables or prior year data. An allowance has been established for a portion of Entity, Intragovernmental, Accounts Receivable, because inadequate documentation makes collectability uncertain. Entity, Governmental, Accounts Receivable include \$10.0 million for costs incurred by USCG to clean up a 1994 oil spill. Since oil carriers' liability per oil spill is limited unless there is evidence of gross negligence or a violation of an applicable Federal safety, construction, or operating regulation, oil carriers are required to have a certificate of responsibility of up to the maximum liability limit for the particular type of vessel--in this case \$10.0 million. USCG recognizes such receivables at the lesser of actual incurred costs or the maximum amount of the liability limit. Litigation is currently underway to establish responsibility for the oil spill. Additional recoveries up to \$83.0 million may occur in the future, but as of the end of FY 1996, no such determination of responsibility had been made.

Notes to the Financial Statement

Note 5 Other Assets:

(Dollars in Thousands)

A. Entity:

1. Intragovernmental	<u>\$223.072</u>
2. Governmental	<u>\$ 1.004</u>

B. Non-Entity:

1. Intragovernmental	<u>\$ 13.781</u>
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- C. Other Information: Other Assets, Entity, Intragovernmental, are comprised of items on loan from other Government agencies and undistributed payments (such as to the Department of Defense or foreign governments) for which DOT is awaiting documentation. Other Assets, Non-Entity, Intragovernmental, are comprised of budget clearing account undistributed cross disbursements.

Notes to the Financial Statement

Note 6. Loans and Loan Guarantees, Non-Federal:

A. DOT operates the following loan or loan guarantee programs:

- (1) Amtrak Corridor Improvement Program
- (2) Railroad Rehabilitation Improvement Program
- (3) Aircraft Purchase Loan Guarantee Program
- (4) Federal Ship Financing Fund
- (5) High Priority Corridors
- (6) Small & Disadvantaged Business Utilization
- (7) Maritime Guaranteed Loan

(Dollars in Thousands)

B. Direct Loans Obligated Prior to FY 1992:

Loan Program	Value of Assets Related to Direct Loans
(1) Amtrak Corridor	\$ 6,379
(2) Railroad Rehabilitation	<u>72,505</u>
Total	<u>\$ 78,884</u>

C. Direct Loans Obligated After FY 1991:

Loan Program	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Net Present Value of Assets Related to Direct Loans
(1) Amtrak Corridor	\$ 3,166	\$ 83	\$ 517	\$ 2,732
(2) Railroad Rehabilitation	4,062	10	300	\$ 3,772
(5) High Priority Corridors	30,950	-	-	\$ 30,950
(6) Small & Disadv. Business	<u>2,259</u>	<u>-</u>	<u>291</u>	<u>\$ 1,968</u>
Total	<u>\$ 40,437</u>	<u>\$ 93</u>	<u>\$ 1,108</u>	<u>\$ 39,422</u>

D. Defaults on Pre-1992 Guaranteed Loans:

Loan Guarantee Program	Loans and Interest Receivable, Gross	Allowance for Est. Uncollectable Loans & Interest	Loans and Interest Receivable, Net
(3) Aircraft Purchase Loan	\$ 885	\$ 337	\$ 548
(4) Federal Ship Financing	<u>44,373</u>	<u>25,620</u>	<u>18,753</u>
Total	<u>\$ 45,258</u>	<u>\$ 25,957</u>	<u>\$ 19,301</u>

Notes to the Financial Statement

Loan Guarantee Program	Loans and Interest Receivable, Net	Foreclosed Property	Value of Assets Related to Direct Loans
(3) Aircraft Purchase Loan	\$ 548	\$ -	\$ 548
(4) Federal Ship Financing	18,753	5,500	24,253
	<u>\$ 19,301</u>	<u>\$ 5,500</u>	<u>\$ 24,801</u>

E. Liability for Loan Guarantees:

Loan Program	Liabilities For Losses on Pre-1992 Guarantees	Total Liabilities For Loan Guarantees
(7) Maritime Guaranteed Loan	<u>\$ 80,068</u>	<u>\$ 80,068</u>

F. Subsidy Expense for Post-1991 Loans:

Current Year's Direct Loans

Loan Program	Defaults	Total
(6) Small & Disadv. Business	466	466

G. Subsidy Expense for Post-1991 Loan Guarantees:

Current Year's Loan Guarantees

Loan Program	Defaults	Total
(7) Maritime Guaranteed Loan	<u>\$117,337</u>	<u>\$117,337</u>

H. Other Information: Direct loan obligations or loan guarantee commitments made prior to FY 1992, and the resulting direct loan or loan guarantees, are reported at the value of the outstanding loan. Direct loan obligations or loan guarantee commitments made after FY 1991, and the resulting direct loan or loan guarantees, are governed by the Federal Credit Reform Act. The Act provides that the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, estimated delinquencies and defaults, fee offsets, and other cash flows) associated with direct loans and loan guarantees be recognized as a cost in the year the direct or guaranteed loan is disbursed. Foreclosed property is valued at the net realization value. There are two vessels on hand at the end of FY 1996.

Notes to the Financial Statement

Note 7. Inventories, Net:

(Dollars in Thousands)

	Inventory Amount	Allowance for Losses	Inventory, Net
Inventory Categories:			
A. Inventory Held for Sale	\$40,211	\$41	\$40,170
B. Product or Service Components	<u>6,625</u>	<u>-</u>	<u>6,625</u>
Total	<u>\$46,836</u>	<u>\$41</u>	<u>\$46,795</u>

- C. Other Information: All DOT inventories are in USCG. Valuation methods used include standard price/specific identification, weighted average, and last acquisition price. Inventories are to be consumed in accordance with USCG directives.

Notes to the Financial Statement

Note 8. Operating Materials and Supplies, Net:

(Dollars in Thousands)

	Value	Allowance	Net Value
Operating Materials and Supplies Categories:			
A. Items Held for Use	\$1,159,166	\$121,956	\$1,037,210
B. Items Held in Reserve For Future Use	85,147	-	85,147
C. Excess, Obsolete and Unserviceable Items	948		948
D. Items Held for Repair	<u>243,121</u>	<u>-</u>	<u>243,121</u>
Total	<u>\$1,488,382</u>	<u>\$121,956</u>	<u>\$1,366,426</u>

- E. Other Information: DOT operating materials and supplies are in USCG, FAA, and MARAD. Valuation methods used include last acquisition price/last repair cost, current or prior FEDLOG prices, weighted average, standard cost, purchase order price, and historical cost. The allowance is used to reduce operating materials and supplies held for repair to 35 percent of their original cost for FAA and 75% for USCG. The only restrictions on use are that USCG consumption must be in accordance with USCG Operating Expense Directives and FAA is not permitted to donate.

Notes to the Financial Statements

Note 9 Property, and Equipment, Net

(Dollars in Thousands)

	Depreciation Method*	Service Life *	Acquisition Value	Accumulated Depreciation	Net Book Value
Classes of Fixed Assets					
A. Land			\$160,038	\$0	\$160,038
B. Structures, Facilities, & Leasehold Improvements	SL	>20	10,447,821	29,061	10,418,760
C. ADP Software	SL	Various	4,738	1,131	3,607
D. Equipment	SL	Various	8,550,118	40,285	8,509,833
E. Assets Under Capital Lease	SL	>20	179,848	75,899	103,949
F. Aircraft	SL	11-20, >20	1,672,385	51,038	1,621,347
G. Construction in Progress			3,382,062	-	3,382,062
H. Other					
Small Boats		>20	107,701	-	107,701
Property Not in Use			18,610	-	18,610
Other Miscellaneous Property	SL	Various	16,312	186	16,126
Total			<u>\$24,539,633</u>	<u>\$197,600</u>	<u>\$24,342,033</u>

- I. Other Information: DOT has very little documentation to support the value of property and equipment. The current DOT default capitalization rate is \$5,000, for USCG it is \$25,000. USCG value for land and structures is based on estimated replacement cost which was not devalued for inflation. Property and equipment has generally not been depreciated except for certain working capital fund and revolving fund activities.

DOT Federal mission property is currently being reviewed by the Federal Accounting Standards Advisory Board. This may result in the removal of some property from the Statement of Financial Position and the transfer of the affected property to a stewardship report.

* Keys:

Depreciation Method

SL - Straight Line

Range of Service Life

1-5 - 1 to 5 years
6-10 - 6 to 10 years
11-20 - 11 to 20 years
>20 - Over 20 years

Notes to the Financial Statement

Note 10. Debt:

(Dollars in Thousands)

Liabilities Covered by Budgetary Resources	Beginning Balance	New Borrowings	Repayments	Ending Balance
A. Intergovernmental Debt:				
(1) Borrowing from the Treasury	\$ 116,512	\$14,957	\$ 15,026	\$ 116,443
(2) Borrowing from Federal Financing Bank	<u>14,470</u>	<u>-</u>	<u>1,808</u>	<u>12,662</u>
Total Intragovernmental Debt	<u>\$ 130,982</u>	<u>\$14,957</u>	<u>\$ 16,834</u>	<u>\$ 129,105</u>

Liabilities Not Covered by Budgetary Resources

B. (1) Agency Debt:				
(a) Held by Government Accounts	<u>\$ 21</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21</u>
(b) Total Agency Debt	<u>\$ 21</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21</u>
C. Total Liabilities For Debt Not Covered By Budgetary Resources	<u>\$ 21</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21</u>
D. Total Debt	<u>\$ 131,003</u>	<u>\$14,957</u>	<u>\$ 16,834</u>	<u>\$ 129,126</u>

E. Other Information: Borrowing from Treasury is for an FRA direct loan and guaranteed loan for the Railroad Rehabilitation Program as statutorily mandated, FHWA direct loans for the High Priority Corridor Program, and OST direct loans in the Short Term Lending Program administered by the Office of Small and Disadvantaged Business Utilization. Borrowing from the Federal Financing Bank is for FRA direct loans to Southern Pacific for the Amtrak Corridor Program. Agency Debt Held by Government Accounts is FAA Debt to Treasury for the Aircraft Purchase Loan Guarantee Program.

Notes to the Financial Statement

· Note 11. Other Liabilities:

(Dollars in Thousands)

A. Other Liabilities Covered by Budgetary Resources:

	Non-Current Liabilities	Current Liabilities	Total
1. Intragovernmental			
(a) Advances from Others	\$ 20,018	\$ 94,042	\$ 114,060
(b) Accrued Pay & Benefits		23,464	23,464
(c) Miscellaneous Receipts		13,213	13,213
(d) Undistributed Collections		9,182	9,182
(e) Assets Loaned to DOT		143,000	143,000
(f) Other	149	10,036	10,185
Total	<u>\$ 20,167</u>	<u>\$ 292,937</u>	<u>\$ 313,104</u>
2. Governmental			
(a) Advances from Others	\$ 94	\$ 59,437	\$ 59,531
(b) Accrued Pay & Benefits	90	272,804	272,894
(c) Undistributed Collections	145	8,557	8,702
(d) Other	145	35,558	35,703
Total	<u>\$ 474</u>	<u>\$ 376,356</u>	<u>\$ 376,830</u>

B. Other Liabilities Not Covered by Budgetary Resources:

	Non-Current Liabilities	Current Liabilities	Total
1. Intragovernmental			
(a) Federal Employees Compensation Act	78,435	114,411	192,846
(b) USCG Environmental Cleanup	\$	\$ 88,482	\$ 88,482
(c) High Speed Rail		10,000	10,000
(d) Voluntary Separation Incentive Pay		9,566	9,566
(e) Other		141	141
Total	<u>\$ 78,435</u>	<u>\$ 222,600</u>	<u>\$ 301,035</u>
2. Governmental			
(a) HTF Contract Authority	\$ 14,815,870	\$ 17,000,000	\$ 31,815,870
(b) Airport Improvement Contracts		1,710,070	1,710,070
(c) Accrued Pay & Benefits	1,416	452,240	453,656
(d) FAA Environmental Remediation		382,224	382,224
(e) Contingent Liabilities		352,505	352,505
(f) Operating Differential Subsidy		266,509	266,509
(g) Air Traffic Control at Closed Bases		21,789	21,789
(h) Other		10,931	10,931
Total	<u>\$ 14,817,286</u>	<u>\$ 20,196,268</u>	<u>\$ 35,013,554</u>

Notes to the Financial Statement

- C. Other Information: Accrued pay and benefits pertain to unpaid pay period September 15-30, 1996. Miscellaneous Receipts and Undistributed Collections represent liabilities pending transfer to Treasury. Agency expenses for payments made under the Federal Employees Compensation Act (FECA) are forwarded to the Department of Labor (DOL). Funding for FECA is normally appropriated to agencies in the fiscal year two years subsequent to the actual FECA billing from DOL. USCG Environmental Cleanup is for USCG sites with contaminated soil and/or ground water which resulted from leaking underground storage tanks used to store petroleum products or hazardous materials. Hi-Speed Rail pertains to obligational authority for hi-speed rail research and testing. Voluntary Separation Incentive Payments (VSIP) pertain to additional Civil Service Retirement System and Federal Employees Retirement System contributions which must be made by agencies to the Office of Personnel Management for employees who received VSIP. HTF Contract Authority and FAA Airport Improvement Contracts are awards which have been obligated but for which liquidating cash has not yet been made available. FAA Environmental Remediation includes environmental cleanup; the fuel storage tank program; environmental occupational safety and health compliance; and energy conservation. Contingent Liabilities are for FAA legal claims which are asserted or unasserted, but probable of assertion, and for the FAA Re-Employment, Restoration, and Return Rights Program. Operating Differential Subsidy reflects MARAD's liability for this program through FY 2002. Air Traffic Control at Closed Bases reflects FAA's liability for its responsibility to continue providing priority Air Traffic Control functions for civilian users of certain DOD bases scheduled for closure.

Notes to the Financial Statement

Note 12. Leases:

(Dollars in Thousands)

A. ENTITY AS LESSEE:

Capital Leases:

Summary of Assets Under Capital Lease (by category):

(1) Land and Buildings	\$179,849
(2) Machinery and Equipment	\$ -
(3) Other	\$ -
(4) Accumulated Amortization	\$ 75,899

Description of Lease Arrangements: Capital leases consist of lease agreements for land and buildings at FAA's Mike Monroney Aeronautical Center (MMAC) in Oklahoma City, Oklahoma, and William J. Hughes Technical Center (WJHTC) located in Pomona, New Jersey. The MMAC land and buildings are leased from the Oklahoma City Airport Trust at an annual lease of \$12 million. The WJHTC administration building is leased from the Atlantic County Improvement Authority at an annual lease payment of \$4.8 million.

Future Payments Due:

Fiscal Year	<u>Asset Category</u>	Totals
	(1)	
Year 1 (1997)	\$ 16,757	\$ 16,757
Year 2 (1998)	16,703	16,703
Year 3 (1999)	16,160	16,160
Year 4 (2000)	12,422	12,422
Year 5 (2001)	11,218	11,218
After 5 Years (2002+)	<u>98,386</u>	<u>98,386</u>
Total Future Lease Payments	<u>\$171,646</u>	<u>\$171,646</u>
Less: Imputed Interest	60,523	60,523
Held for Others	134	134
Total Capital Lease Liability	<u>\$110,989</u>	<u>\$110,989</u>
	Unfunded	<u>\$110,989</u>

Notes to the Financial Statement

Operating Leases:

Description of Lease Arrangements: Operating leases are for land and buildings occupied by Department personnel and equipment or land leased for installation of FAA ATC equipment. Operating leases are funded and expensed annually.

Future Payments Due:

Fiscal Year	Asset Category			Totals
	(1)	(2)	(3)	
Year 1 (1997)	\$ 44,492	\$ 360	\$ 430	\$ 45,282
Year 2 (1998)	41,170	367	431	41,968
Year 3 (1999)	36,400	377	432	37,209
Year 4 (2000)	31,814	242	436	32,492
Year 5 (2001)	27,758	250	281	28,289
After 5 Years (2002+)	<u>64,947</u>	<u>4,403</u>	<u>119</u>	<u>69,469</u>
Total Future Lease Payments	<u>\$ 246,581</u>	<u>\$ 5,999</u>	<u>\$ 2,129</u>	<u>\$254,709</u>

B. ENTITY AS LESSOR:

Operating Leases:

Description of Lease Arrangements: FAA leases Washington National and Washington Dulles International Airports to the Metropolitan Washington Airports Authority, the airports' operator. FAA also leases equipment to foreign governments and parcels of Government-owned land, generally for agriculture. The original value of these leased assets is approximately \$2.8 million. Pursuant to statute, the Metropolitan Washington Airports Authority makes annual lease payments to the General Fund of the U.S. Treasury. These lease payments include a general price level adjustment and interest earned by the lessee on monthly deposits to an escrow account.

Future Projected Receipts:

Fiscal Year	Asset Category		Totals
	(1)	(2)	
Year 1	\$ 3,933	\$ 276	\$ 4,209
Year 2	4,123	276	4,399
Year 3	4,320	275	4,595
Year 4	4,530	275	4,805
Year 5	4,759	275	5,034
After 5 Years	<u>200,034</u>	<u>-</u>	<u>200,034</u>
Total Future Operating Lease Receivables	<u>\$ 221,699</u>	<u>\$ 1,377</u>	<u>\$223,076</u>

Notes to the Financial Statement

Note 13. Pensions and Other Actuarial Liabilities:

(Dollars in Thousands)

Major Program Activities	Actuarial Present Value of Projected Plan Benefits	Assumed Interest Rate (%)	Assets Available to Pay Benefits	Actuarial Liability Not Covered by Budgetary Resources
A. Pension and Health Plans				
(1) USCG Retired Pay Fund	\$ 14,267,500	6.50%	\$ -	\$ 14,267,500
(2) USCG Military Health Care	\$ 3,500,000			\$ 3,500,000
B. Federal Employees Compensation Act	<u>\$ 937,172</u>		<u>\$ -</u>	<u>\$ 937,172</u>
D. Total	<u>\$ 18,704,672</u>		<u>\$ -</u>	<u>\$ 18,704,672</u>

- E. Other Information: The actuarial liability of the USCG Retired Pay Fund is the present value of projected plan benefits based on information provided by the Commandant (G-W). The actuarial liability for USCG Military Health Care is not based on an actuarial study. It is an estimate based on a ratio of USCG to DOD populations multiplied by the DOD actuarial estimate. In the future a USCG actuarial liability will be prepared and may reflect a higher or lower liability than this current ratio. Federal Employees Compensation Act (FECA) actuarial liability estimates are generated from an application of actuarial procedures developed to estimate the liability for FECA benefits. The actuarial liability estimates for FECA benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using the paid losses extrapolation method calculated over the next 23-year period. This method utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These annual benefit payments have been discounted to present value. Interest rate assumptions utilized for discounting were as follows:

1996

6.21% in year 1,
5.97% in year 2,
5.60% in year 3,
5.32% in year 4,
5.15% in year 5,
and 5.10% thereafter

1995

7.10% in year 1,
6.60% in year 2,
and 7.00% thereafter

Notes to the Financial Statement

Note 14 Net Position:

(Dollars in Thousands)

	<u>Revolving Funds</u>	<u>Trust Funds</u>	<u>Appropriated Funds</u>	<u>Total</u>
A. Unexpended Appropriations				
(1) Unobligated				
a. Available	\$123,917	\$(2,401,197)	\$ 1,448,868	\$ (828,412)
b. Unavailable	13	110,989	146,900	257,902
(2) Undelivered Orders	0	7,041,768	7,204,040	14,245,808
B. Invested Capital	186,192	10,984,855	16,793,344	27,964,391
C. Cumulative Results of Operations	163,095	23,573,534	362,622	24,099,251
D. Other	(12,822)	(96,867)	0	(109,689)
E. Future Funding Requirements	<u>(2,536)</u>	<u>(34,051,010)</u>	<u>(20,076,725)</u>	<u>(54,130,271)</u>
F. Total	<u>\$457,859</u>	<u>\$ 5,162,072</u>	<u>\$ 5,879,049</u>	<u>\$11,498,980</u>

G. Other Information: Negative balances indicated for Unexpended Appropriations in Trust Funds result because FAA determines the amount to be withdrawn biweekly based on cash outlays, not obligational authority, to minimize interest costs. In addition, the Airport Improvement Program has obligational authority but has not yet received a liquidating cash appropriation. Obligated unfunded contract authority for the Highway Trust Fund has been removed from Unexpended Appropriations and reflected as part of Future Funding Requirements (as well as Liabilities Not Covered by Budgetary Resources). Some DOT Operating Administrations are not following proper accounting procedures in recording Invested Capital for property. Therefore, the amount for Invested Capital is an approximation of the value of that property and equipment.

Notes to the Financial Statement

Note 15. Taxes:

(Dollars in Thousands)

	<u>FY 1996</u>
A. Excise and Other Taxes:	
Gasoline, Fuel, Tires, etc.	24,650,893
Passenger Ticket Taxes	2,122,879
Way Bill Taxes	150,905
International Departure Taxes	128,380
Airway Fuel Taxes	2,806
Oil Spill Liability Taxes	<u>900</u>
B. Total Tax Revenues	<u>\$ 27,056,763</u>

- C. Other Information: Taxes are collected by the Internal Revenue Service for the Highway Trust Fund, Airport and Airway Trust Fund, and the Oil Spill Liability Trust Fund. These taxes are deposited in the appropriate trust fund and can be withdrawn only as authorized by various DOT appropriation codes.

Notes to the Financial Statement

Note 16. Other Revenue and Financing Sources:

(Dollars in Thousands)

FY 1996

A. Other Revenue and Financing Sources:

(1) USCG Unexpended Appropriations	\$ 707,036
(2) FAA Gain on Materials & Supplies Valuation	240,357
(3) Miscellaneous Fees and Reimbursements	54,372
(4) FAA Gain on Fixed Assets	35,256
(5) Transfer from Alaska Pipeline Fund	33,425
(6) Miscellaneous	<u>13,772</u>
Totals	<u>\$ 1,084,218</u>

- B. Other Information: USCG Unexpended Appropriations are comprised of Undelivered Orders. FAA Gain on Materials and Supplies Valuations result from various MMAC functions, such as making repairs and improvements, receiving items returned from field facilities, fabricating specialty items, transferring parts, making transfers between accounts, inspecting bins, and recognizing differences between actual costs and standard costs used in valuing materials and supplies. Other valuation gains for operating materials and supplies result from regional adjustments. These valuation gains have resulted in the overstatement of revenue, since they should have been treated as unrealized gains. However, this revenue overstatement is partially offset by the recognition of realized losses for such valuations. Miscellaneous fees and reimbursements include RSPA pipeline safety and hazardous materials registration user fees and fines, MARAD annual guarantees and investigation fees, and reimbursements for tenant agreements, cafeteria, and copy services. FAA Gain on Fixed Assets is due to inappropriate regional transfers (to be corrected in FY 1997).

Notes to the Financial Statement

Note 17. Program or Operating Expenses:

(Dollars In Thousands)

	<u>FY 1996</u>
A. Operating Expenses by Major Program:	
(1) Highway Trust Fund Programs	\$ 23,483,085
(2) FAA Operations	4,720,961
(3) USCG Operations	2,824,304
(4) FAA Facilities & Equipment	2,508,902
(5) FTA Formula Grants	1,804,695
(6) FAA Grants In Aid	1,664,931
(7) USCG Retired Pay	577,601
(8) Grants to Amtrak	572,212
(9) Other Highway Programs	369,238
(10) Northeast Corridor	264,519
(11) FAA Research, Engineering & Development	233,495
(12) USCG Acquisition Construction & Improvement	211,481
(13) MARAD Title XI Loan Guarantee Program	198,691
(14) Washington Metro Area Transit Authority	194,273
(15) NHTSA Operations & Research	148,834
(16) MARAD Ocean Freight, Operating & Ship Construction Differential Subsidy	142,473
(17) MARAD Operations & Training	120,386
(18) MARAD Ready Reserve & Vessel Operations Program	87,675
(19) OST Working Capital Fund	86,141
(20) Transit Planning & Research	83,014
(21) USCG Oil Spill Liability Trust Fund	78,634
(22) Other Misc. Transportation Programs	<u>767,435</u>
Totals	<u>\$ 41,142,980</u>

B. Other Information: DOT Programs are described in detail in the Departmental Overview Section. Due to technical difficulties, an estimated \$176.0 million of year end accrued Program and Operating Expenses and associated Accounts Payable have not been included. OMB Circular A-34, Instructions on Budget Execution, requires payments between fund groups to be recorded as obligations and expenditures from the transferring account. In DOT, this involves expenditure transfers from Trust Funds to General Funds. The General Fund reflects the actual revenues and expenses resulting from the expenditure transfer. About \$2.2 billion was transferred from the Airport and Airway Trust Fund to the FAA General Fund, and about \$1.1 billion was transferred from the Highway Trust Fund to the FTA General Fund for Formula Grants. To prohibit duplicate entries and properly reflect actual revenues and expenses, intra-Departmental transactions were identified and eliminated from Departmental balances.

Notes to the Financial Statement

Note 18. Other Expenses:

(Dollars in Thousands)

	<u>FY 1996</u>
A. Other Expenses:	
(1) Estimated Liabilities for Legal Claims	\$ 320,505
(2) FAA Loss on Materials & Supplies Valuation	174,591
(3) Allowance for FAA Reparable Materials & Supplies	122,826
(4) FAA Loss on Fixed Assets	98,360
(5) Miscellaneous	<u>103,995</u>
Total	<u>\$ 820,277</u>

- B. Other Information: Estimated Liabilities for Legal Claims pertain to certain claims recognized by FAA, which (1) have been asserted, or if not yet asserted, in the opinion of the Office of Chief Counsel (OCC) are more likely to be asserted than not; (2) in the opinion of the OCC are more likely to be paid than not; and (3) for which OCC can estimate the probable payment. FAA Loss on Materials and Supplies Valuation result from various MMAC functions such as making repairs and improvements, receiving items returned from field facilities, fabricating specialty items, transferring parts, making transfers between accounts, inspecting bins, and recognizing differences between actual costs and standard costs used in valuing materials and supplies. Other valuation losses for operating materials and supplies result from regional adjustments. These valuation losses have resulted in the overstatement of expenses, since they should have been treated as unrealized losses. However, this expense overstatement is partially offset by the recognition of realized gains from such valuations. Allowance for FAA Reparable Materials & Supplies recognizes the write down of Reparable materials and supplies to 35 percent of their acquisition cost. FAA Loss on Fixed Assets is due to inappropriate regional transfers (to be corrected in FY 1997). Miscellaneous Expenses are primarily an increase in the Federal Employees Compensation Act actuarial liability.

Notes to the Financial Statement

Note 19. Extraordinary Items/Prior Period Adjustments:

(Dollars in Thousands)

FY 1996

A. Extraordinary Items:

(1) Reconciliation of FAA Purchases-In-Transit Account	\$ (222,584)
(2) USCG Operating Materials and Supplies	<u>161,443</u>
Total	<u>\$ (61,141)</u>

B. Prior Period Adjustments:

(1) HTF Net Position Adjustments	\$ (4,121,429)
(2) FAA Net Position Adjustments	\$ 617,168
(3) USCG Net Position Adjustments	(744,809)
(4) Other	<u>9,009</u>
Total	<u>\$ (4,240,061)</u>

- C. Other Information: The Extraordinary Item for Reconciliation of FAA Purchases-In-Transit account recognizes the resulting write off of assets. The Extraordinary Item for USCG Operating Materials and Supplies recognizes as an asset year end balances which had been previously expensed. HTF Net Position Adjustments were primarily due to a change in the reporting of Future Funding Requirements from Net Position Adjustments to Liabilities Not Covered by Budgetary Resources. FAA Net Position Adjustments were primarily due to reclassification of completed projects from work-in-process to the proper asset account, correction of operating expenses, and adjustments made to reconcile with Treasury custodial account balances. USCG Net Position Adjustments were primarily due to recognition of expenses not previously reported and funds returned to Treasury for expired accounts.

Notes to the Financial Statement

Note 20. Non-Operating Changes:

(Dollars in Thousands)

	<u>FY 1996</u>
A. Increases:	
(1) Transfers-In	\$ 136,037
(2) Donations Received	2,459
(3) Other Increases	<u>5,347,174</u>
Total Increases	<u>\$ 5,485,670</u>
 B. Decreases:	
(1) Transfers-Out:	\$ (833,148)
(2) Donations	(1,407)
(3) Other Decreases	<u>(40,774,125)</u>
Total Decreases	<u>\$ (41,608,680)</u>
 C. Net Non-Operating Changes	<u>\$ (36,123,010)</u>

- D. Other Information: Other Decreases include \$27.9 billion due to a change in reporting HTF Future Funding Requirements as Net Position Adjustments to Liabilities Not Covered by Budgetary Resources.

Notes to the Financial Statement

Note 21. Contingencies:

Legal Proceedings. FAA recognized contingent liabilities in the amount of \$320.5 million for certain claims brought to the attention of the FAA Office of Chief Counsel (OCC). Such claims are those that (1) have been asserted, or, if not yet asserted, in the opinion of the OCC are more likely to be asserted than not; (2) in the opinion of the OCC are more likely to be paid than not; and (3) for which OCC can estimate the probable payment. The maximum exposure associated with such claims is \$30.9 billion. Therefore, FAA's exposure to loss for such contingent liabilities in excess of the amount recognized is \$30.6 billion. Total exposure may have been understated because the stated amount does not include contract, personnel, or other claims processed without OCC involvement. It is unknown whether such claims represent a material amount. Action will be taken during FY 1997 to estimate the amount of claims being processed by organizations other than OCC.

Aviation Insurance Program. FAA may issue aircraft hull and liability insurance under the Aviation Insurance Program for certain air carrier operations. FAA's authority to issue insurance is limited to situations where commercial insurance is not available on fair and reasonable terms and where the operation to be insured is necessary to carry out the U.S. Government's foreign policy. No claims for losses were pending as of September 30, 1996.

FAA normally insures only a small number of air carrier operations at any time. Airspace and airport capacity in areas where FAA insurance coverage would apply is usually very limited, so that FAA expects to be able to terminate insurance coverage and/or insured air carrier operations in high-risk areas after the loss of no more than two aircraft. Assuming a loss of not more than two aircraft per year, the maximum expected insurance liability for any year would be \$2 billion. Therefore, the range of possible liability to FAA is between zero and \$2 billion. Since inception of the program (including the predecessor, the Aviation War Risk Insurance Program, dating back to 1951), only four claims, ranging from \$626 to \$122,469, have been paid.

Canceled Appropriations. Under 31 U.S.C. 1552(a), an appropriation account which was available for obligation for a definite period is closed for all purposes at the end of the fifth fiscal year after its period of availability for obligation has expired. All obligated and unobligated balances in the account are then canceled. Under 31 U.S.C. 1553(b)(1), as implemented by OMB Circular No. A-34, after an appropriation is closed, any obligations or adjustments to obligations that would have been properly chargeable to that appropriation may be paid from an unexpired appropriation that is available for the same purpose. A single cumulative limit of no more than 1 percent of an unexpired appropriation may be used to pay any combination of obligations relating to closed accounts.

On September 30, 1996, FAA canceled undelivered orders (i.e., obligations) for closed appropriations in the amount of \$5.3 million for operations and \$2.3 million for Facilities and Equipment.

Notes to the Financial Statement

Note 22. Saint Lawrence Seaway Development Corporation:

Condensed FY 1996 Information:

	(Dollars In Thousands)
Cash and Time Deposits	\$ 13,971
Accounts Receivable	131
Inventories	279
Property, Plant & Equipment	88,238
Other Assets	<u>1,900</u>
TOTAL ASSETS	\$ <u>104,519</u>
Current Liabilities	\$ 1,755
Actuarial Liabilities	<u>1,225</u>
TOTAL LIABILITIES	\$ 2,980
Invested Capital	103,053
Cumulative Results of Operations	<u>(1,514)</u>
TOTAL NET POSITION	\$ <u>101,539</u>
TOTAL LIABILITIES AND NET POSITION	\$ <u>104,519</u>